

RURAL CREDITS

LAND AND COÖPERATIVE

BY

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AND

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PREFACE

THE purpose of this book is to throw light upon the subject of rural credits and to lay before the American people the customs and laws in operation in other countries, so as to prepare the way for more enlightened plans for improving land and agricultural credit facilities in the United States. It is my hope that the material here collected will be helpful in creating a credit system or systems adapted to the needs of the agricultural interests of this country.

The subject of rural credits has occupied my attention, more or less, for a considerable number of years, and I have availed myself of the opportunities of my position as American Ambassador to France to familiarize myself with agricultural conditions and credit systems and institutions in Europe. Furthermore, my twenty-eight years' connection with the Society for Savings in the City of Cleveland, as treasurer, chairman of the board, and president, has been of great value to me in the formation of ideas regarding financial questions, and especially with respect to cooperative credit. The Society for Savings, with nearly one hundred thousand depositors, is one of the largest of the many savings banks in the country. It has no capital stock; it is mutual in its administration and operations, and was founded primarily for the purpose of encouraging thrift. Indeed, for several years, I have deemed it a patriotic duty to investigate the rural-credit systems and institutions of various nations and to give my fellow-citizens the results of my research.

The project for improving farm-credit facilities and introducing cooperation credit in the United States is not a new one. In an article published in the *Journal of Social Science* in 1869, Henry Villard, the railroad builder, gave an interesting account of the Schulze-Delitzsch banks, and remarked that

"they can safely be recommended for adoption in this country." In 1892 the Department of Agriculture published a bulletin prepared by Edward T. Peters on "Cooperative Credit Associations in Certain European Countries." This document, which is still the best published by the Government on these topics, described the systems of cooperative credit in Germany, Austria-Hungary, Italy, and Russia. In 1901 Andrew McFarland Davis prepared for the American Economic Association, and published in the association's *Quarterly*, the history of "Currency and Banking in the Province of Massachusetts-Bay." This work, which should be carefully read by legislators proposing laws for improving land credit, explains the causes of the failures of the land banks which were established in some of the American colonies in the first half of the eighteenth century. The reports of the National Monetary Commission, appointed in 1907, contain valuable information on land-banks and cooperative credit systems of Europe. All this shows that the problems of rural credits had engaged the official attention of the Government before the launching of the recent movement. In fact, since the collapse of the farm mortgage "craze" in the early nineties, the farmers' interests have been a subject of consideration by all those who have been studying the question of currency reform.

On November 22, 1908, a coöperative savings and loan society was established at Manchester, New Hampshire, for French-Canadian lumbermen working during the winter in the New Hampshire woods. Some of the members were residents of the agricultural districts of Quebec in which Alphonse Desjardins' bank was in operation. In 1909, through the influence of Pierre Jay, bank commissioner, the Massachusetts Legislature enacted a credit-union law, a fact which did not become widely known until several years later. In 1910 a thesis on "Coöperative Credit Associations of the Province of Quebec," submitted by Hector Macpherson to the faculty of the Graduate School of Arts and Literature of the University of Chicago, first attracted the attention of the American public to the work of Mr. Desjardins in Quebec.

The question was beginning to be widely discussed in 1910, and during the summer of that year, while on a trip to Europe, I obtained, through Robert Skinner, then consul-general at Hamburg, statistics and particulars regarding the cooperative land-credit systems of Germany. This information I used in a speech delivered at Delaware, Ohio, on October 26, 1910, before Group Five of the Ohio Bankers' Association. After that I began a thorough investigation of the subject, and became so deeply interested that I brought the matter by resolution before the American Bankers' Association at its annual meeting of 1911 in New Orleans. On November 24, 1911, the Association instructed its Committee on Agricultural and Financial Education and Development (then formed) to investigate the general subject of rural finance in relation to conditions in the United States. Several months earlier, in the same year, the Jewish Agricultural and Industrial Aid Society had begun actually to form cooperative credit societies for farmers.

President Taft was so much impressed with the importance of the problem of rural credits that he directed Secretary of State Knox to instruct the embassies in Germany and Italy and the legations in Belgium and the Netherlands to make investigations in the matter of land credit. In a letter addressed to me on March 30, 1912, the Secretary said:

These missions are being instructed simultaneously to send copies of their reports to the Embassy at Paris, which is requested to undertake the duty of preparing a general report, with all proper exhibits and documents such as will place the Department in possession of all data necessary, to the President for the formulation of some practical scheme which may be worked out to bring the desired benefits to the agricultural communities in the United States. If there are any other countries where such arrangements are already in operation, the Department will, from time to time, be glad to supplement the present instructions with further instructions.

On April 1, 1912, at its meeting at Nashville, Tenn., the Southern Commercial Congress, at the suggestion of David

Lubin, American delegate to the International Institute of Agriculture, held a conference on rural cooperative credit. On April 17, 1912, Senator Porter J. McCumber, of North Dakota, presented in the Senate and had published as a public document an outline of European rural cooperative credit, compiled by the Institute on February 26, 1912. On June 22 of that year, the Republican Party at its convention at Chicago adopted as one of its planks a resolution indorsing the movement, prepared according to my suggestions. Similar resolutions were adopted subsequently by the Democratic and Progressive parties at their conventions.

On October 11, 1912, the Government at Washington, through the Department of State, published the "Preliminary Report on Land and Agricultural Credit," which I had compiled at Paris with the assistance of Edwin Chamberlain, of San Antonio, Texas; Edward N. Breitung, of Marquette, Michigan, and R. Ingalls, of Atchison, Kansas. In formulating the recommendations in that report, I found extremely useful the suggestions and information furnished by M. Decharme, of the French Ministry of Agriculture; Hippolyte Morel, president of the *Crédit Foncier* of France; Georges Pallain, governor of the Bank of France; Henry W. Wolff, the English authority on cooperative credit; Curtis Guild, then Ambassador to Russia; John G. A. Leishman, formerly Ambassador to Germany; Richard C. Kerens, formerly Ambassador to Austria, and Maurice Francis Egan, formerly Minister to Denmark. The report was sent to the governors of the states, accompanied by a personal letter of President Taft approving its recommendations and inviting the governors to a special conference, which was held at the White House on December 7, 1912.

President Wilson proclaimed his advocacy of the rural-credits movement in his inaugural address, and on March 4, 1913, an act was passed by Congress for the appointment by the President of a United States Commission to go to Europe with the American Commission assembled by the Southern Commercial Congress for the purpose of making an investigation and report on agricultural finance, production, distribu-

tion, and rural life in Europe. The commissions sailed on April 26, 1913. The evidence of the American Commission was submitted to the Senate on October 30, 1913, and its observations and a minority report on December 5, 1913. The reports of the United States Commission were submitted to the Senate on January 29 and March 13, 1914.

As a result of the movement, several states have enacted laws to improve rural credit facilities, and there are numerous bills of the same purport pending in Congress and the state legislatures. It cannot be said that the legislation enacted or proposed is entirely satisfactory. Indeed, neither bankers nor farmers, as a class, have given it their unqualified approval. The trouble seems to lie in an attempt to apply European principles to American conditions without adequately studying the credit institutions and systems devised for farmers and landowners in European and the few other countries where they have been developed.

In preparing this book, I have tried to supply facts and figures regarding these institutions and systems, drawing my information from original sources and public documents. Most of these publications are French and German. Those in the English language which were found to be most helpful are, besides the ones mentioned above, Henry W. Wolff's *People's Banks* and other writings; "Reports of Her Majesty's Representatives Abroad on Institutions for Making Advances on Real Property"; Sir F. A. Nicholson's report on "Land and Agricultural Banks" to the Madras Presidency, India; bulletins of the International Institute of Agriculture; Joseph R. Cahill's report on "Agricultural Credit and Agricultural Coöperation in Germany" to the Board of Agriculture and Fisheries, England; and various pamphlets issued by the agricultural organization societies of Ireland, Scotland, England and Wales.

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PART I LAND CREDIT

CHAPTER I

CREDIT, ITS FORMS AND USE

Definition—Forms of Credit.—Agricultural Credit in the United States—Farmers' Debt, Its Possible Expansion—Long-term Loans and Short-term Loans.—Federal Reserve Act of 1913.—Cooperative Banking System for Farmers.—European Models.

IN a financial sense, credit is that confidence reposed in a person, which enables him to obtain from another the temporary use of a thing of value. It may be accorded on the security of real estate, personal property, or mere character; and so is classified in three general forms deriving their names from the kind of security taken.

Credit in any one of these three forms may be either consumptive or productive according to the purpose of its use. The purchase on time of a luxury or an unnecessary thing, or the renewal of an old debt on more onerous terms, is called consumptive because such acts decrease the wealth of the debtor. This form is dangerous. "Credit supports the borrower as the rope supports the hanged," said Louis XIV in the seventeenth century when he saw how the nobles through extravagance and the peasantry through thriftlessness had fallen into the clutches of usurers.

Productive credit is that which is employed to stop a loss, effect an economy, or create something materially valuable. The savings or gains which result ought eventually to equal the debt: hence no one need be afraid of this form, provided the amount and extent be judiciously limited to ability for prompt repayment. As is popularly said, productive credit makes its own security and liquidates itself.

Again, credit is either short-term or long-term. Short-term credit is properly a banking operation. Chattel mort-

gages, easily negotiable collateral, and the endorsement of responsible parties are the securities taken for it. Real-estate mortgages are usually reserved for long-term credit. Only relatively small numbers of these reach the banks. As a rule, they are used for the investment of funds whose owners do not require a quick return of the principal. Finally, credit is called individual when accorded to persons separately, and collective or cooperative when accorded to groups of persons.

The bulk of the world's business is done on credit. Nations, municipalities and public corporations are bonded beyond thought of redemption by the present generation. Industrial companies and commercial houses operate in a large measure on borrowed capital and banks on deposits entrusted to their care. Business concerns of all kinds are continually receiving and giving credit. The majority of successful men started in active life with no capital but their brains. They established themselves by gaining the confidence of the investing public, and many utilize their good names as their chief financial resource throughout their careers.

The land of all civilized countries is heavily mortgaged. A score of years ago the mortgage debt in the United States was 35.5 per cent of the taxable value of the land. In France it was 20 per cent. In Prussia rural property was mortgaged up to nearly 40 per cent of its value. These are typical instances of a general condition, and the figures of today, if compiled, would show as large a proportion. In the United States 28.7 per cent of the farms were mortgaged in 1890; in 1910 the proportion had risen to 36.8 per cent.

Through the various methods of credit the possibilities of the future have been capitalized and drawn upon in every conceivable manner for the benefit of present enterprise. But the use of credit within reasonable limits is commendable and should be encouraged in honest and capable persons who have more ideas than money of their own. A man who borrows to set himself up in business, to buy a farm or increase its yield, to cheapen the cost of the growing and marketing of crops, or for any other productive purpose, does exactly what he should do, because the transaction enables him to take

advantage of his opportunities and give full play to his talents, and puts him in the way of doing a possible good to himself and family, and of becoming a useful member of society by adding to the nation's wealth

The machinery for credit in the United States is defective and inadequate from the point of view of agriculture. There is plenty of money, it is true, for well-to-do farmers who are able to meet all requirements imposed by the lender, but there are no means whatever for granting long-time loans, no arrangements, except in a few local and special cases, for promoting the movement of the people back to the land, no outside sources for short-time credit, nor any system whereby agriculture may have first use, as it should, of the wealth it creates for financing itself. About the only facility of which farmers avail themselves at the banks is the straight loan on promissory note. They depend too much on the merchant to carry them over from harvest to harvest, and on this indirect credit, always expensive, of instalment purchases and running accounts they are paying excessive interest in all localities remote from financial centers, and their unfruitful debt is increasing with no prospects of immediate reduction.

The farmers' debt in 1910, as estimated by the United States Department of Agriculture, was \$250,000,000 on store accounts, \$390,000,000 on cotton liens, \$450,000,000 on other liens, \$417,000,000 miscellaneous, \$700,000,000 on chattel mortgage, and \$2,793,000,000 on real-estate mortgage, or a total of \$5,000,000,000. The Department of Agriculture estimated in 1913 that the farmers' debt bears an average rate of interest of 7.75 per cent, with extremes of 5.80 per cent in New Hampshire and 11.58 per cent in Oklahoma. Both these estimates are admittedly conservative and undoubtedly fall below the truth as regards liens, unsecured claims and interest rates. Other experts have found instances where interest was charged at the rate of 24 per cent per annum in New England and 40 per cent to small planters in the cotton states. The fees for renewals invariably run from two to five per cent. The incidental costs of real-estate mortgages raise the rate

a point or so above the written rate. Exorbitant usury is often concealed in running accounts, yet over one-half of the farmers are indebted to merchants and implement dealers in this thriftless form of credit. Taking these facts into consideration, the correct figures would probably exceed \$6,000,000,000 for the debt and 8 5 per cent for the average interest rate.

Although stupendous this debt does not necessarily indicate an unhealthy condition. Most of it lies in the newer sections of the country and in states where agriculture is most flourishing, and it may reasonably be inferred that it was contracted mainly for productive purposes. But the figures have grown rapidly within the last 20 years and show that the debt is increasing at an accelerating rate and that farmers are paying a higher rate of interest than is justified by the security which they can offer. This total debt will become due within the next five years. Not even the real-estate mortgages will run beyond that period. But all will not be repaid. That would be impossible. A large part will be renewed with commissions and additional expenses, and will remain as an accumulating burden upon the borrowers.

New debts will be piled upon this old burden because the need of credit will expand with the growth of the country. In 1910 the farms of the United States comprised 878,798,325 acres. Less than one-half of this area, equal in extent to about 12 states of the size of Ohio, is improved, and produces only a portion of its possible yield. Thousands of farms lie abandoned in the East, millions of acres are still untouched by the plow in the unappropriated public lands, and vast areas could be made arable by irrigation in the West, or by drainage and reclamation along the coasts and in the valleys of the large rivers. Since not one-fourth of the land is under cultivation and its production is far below the possibilities, it may be truthfully said that the surface of the United States has only been scratched.

✓ But the work of replenishing impoverished soils, opening up new fields, and stimulating agriculture in all its branches cannot be long deferred, because the present rate of increase

in population is greater than the rate of increase in the means of subsistence, and this youngest among the nations of the earth is in danger of being unable to feed and clothe its people in spite of matchless natural resources. The farmers' debt may be expected to augment at a more rapid progression than in the past, but no one can foretell the size it will attain before it becomes stationary or begins to decrease.

✓ The enormous funds which agriculture will continue to require are of two kinds. The first is the fixed capital to be sunk permanently or for a long period in the acquisition and improvement of the land and in the purchase of equipment, the second is the circulating capital to be used for short periods in growing, harvesting, and marketing the crops. If correct principles were followed, the borrowed fixed capital would always be represented by the real-estate mortgages, and the repayment gradually made out of the annual returns from the soil. The mortgage would then be as near an unchanging security as it is possible to make it, while a prudential limit would be set against excessive borrowing. Although this arrangement would be slow, it would be exceedingly safe, and it would also leave all the other means of credit for the circulating capital, which can never be obtained in sufficient quantity except upon securities of quick and easy convertibility. No mortgage, strictly speaking, is a real-estate loan unless it be intended to be redeemed out of the land, since otherwise its ultimate recovery depends upon a personal or other kind of guaranty.

Inasmuch as the existing system fails to satisfy all the credit needs of agriculture, the question arises whether the desired reforms should be worked out from within, or brought about by starting anew. Six-sevenths of the credit now accorded comes from local sources. The remaining one-seventh is represented by the real-estate mortgages held by life-insurance companies, savings banks, and individual customers of a few well-known brokers. These lenders usually do not take securities exceeding the length of five years. Judging from facts, in Europe they never will take them. Long-term loans can be granted only in connection with the sale of debentures.

The farm-mortgage debenture was never given a fair trial in America. Even its name has fallen into disrepute, and it cannot be restored to grace or widely used for drawing money from the investing public until regulations are prescribed for its issue and rules for appraising property are standardized throughout the country. Hence, new legislation and a change of business methods are necessary in order to put real-estate credit on a proper basis.

As to short-term loans for circulating capital, it must be borne in mind that the chief and proper use of the sums borrowed by farmers is for production, for the creation of something that did not exist before. Agriculture, when considered from year to year and over extended areas, is in its returns the surest of all operations. Nevertheless, there are elements of risk in each individual case until the product is ready for the market; and because of this risk agricultural credit lacks in a marked degree the safety ordinarily required in banking. A commercial bank's special business is to facilitate the exchange of things of definitely ascertained value already in existence. Hence, practically all the service that banks of this character can render agriculture is to effect the transfer of raw material after it has been created. They cannot grant credit on the potentiality of next season's crop any more than they can take in security the uncaught fish of the sea or the ore yet to be extracted from the mine.

Furthermore, the shortest period needed for agriculture is too long for the banks, and so the 90-day paper of the merchant gets the preference over the six-month or one-year paper of the farmer. As a result, the major portion of the farmers' credit is not bankable under the present system, and only a comparatively small amount of their paper reaches the outside world. Consequently, when they wish to realize upon their credit to its fullest extent, the farmers must pay a premium for the risk incurred, besides the highest interest charged in their immediate vicinity. A new system to be added to the old is necessary to rectify this trouble also, in spite of the powers recently granted to national banks by the Federal Reserve Act of 1913.

This act provides that any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its federal reserve district, but no such loan shall be made for a longer time than five years nor for an amount exceeding 50 per cent of the actual value of the property offered as security. Such a bank may make such loans in an aggregate sum equal to 25 per cent of its capital and surplus or to one-third of its time deposits. Reserve banks may rediscount notes, drafts and bills of exchange issued or drawn for agricultural purposes or based on livestock, provided that the maturity does not exceed six months or the total does not exceed in amount the percentage of its capital to be ascertained and fixed by the Federal Reserve Board.

These provisions impose no obligation. Experience alone will determine the effect thereof, but it is probable that the federal reserve banks will proceed along customary lines and keep every possible dollar of their capital, deposits and surplus in quickly maturing and easily convertible assets.

Agricultural wealth and production in the United States are greater than in any other country. The figures are stupendous. In 1910 farm property was valued at \$40,991,449,090, of which \$28,475,674,169 was in land. If this capital were mobilized the credit needs of farmers could be supplied for all time to come. The annual returns were \$8,417,000,000. This is more than sufficient to finance a banking system for the exclusive use of the farmers. Mobilization can be accomplished, however, only through institutions capable of lengthening the period of loans, allowing repayment by amortization, and able to make heavy and constant sales of debentures issued against the mortgages taken. As regards short-term credit, the best banking system ever devised for enabling farmers to utilize their own funds and revenues for their own purposes is a cooperative system.

The object of the movement which has been set on foot to improve farm credit facilities is the introduction of these principles and practices. Europe furnishes the best models to be studied. But this does not mean that all European

countries have established perfect and completely adequate systems for farmers and landowners. The case is quite otherwise. Germany is the only country in which the ideal has been approached, and much remains to be done there. All the other agricultural nations, however, have made considerable progress. Hence, a study of the work which has been done and of the results obtained in Europe will assist the solution of the problems arising in the reorganization of land and rural credit in the United States.

CHAPTER II

SPECIAL PRIVILEGE AND STATE AID

Substitution of Companies for Individual Money Lenders—Break-up of Feudal System in Europe—Special Privileges for Determining Titles—Necessities of European Peasants.—Two European Classes of Organizations for Lending Money.—American Need of Long-term, Reducible Loans.

THE organization of land credit means the substitution of specifically designed bodies in place of individuals as money lenders. These bodies cannot operate with safety, convenience and profit unless they have infallible rules for proving titles and determining the value of land, and quick and cheap methods of legal procedure for recovering loans. Nor can they do much good without safeguards for investors and restrictions against thriftless borrowing. At the inception of land-credit institutions on the continent of Europe, special privileges were granted for their encouragement and protection. All land-credit institutions created before 1860 were endowed with extraordinary rights in respect to administrative and judicial matters or accorded fiscal or financial favors and exemptions; and the tendency of legislation today is still towards governmental subsidy and control where the borrowers are exclusively farmers or small holders.

In tracing the origin of this intervention of the state, the troubles arising out of the breaking up of the feudal system must not be overlooked. This system prevailed throughout Europe from the eighth century down to modern times. It remained in Russia until 1861, its last vestiges were not stamped out in Germany until 1851. It was based in the beginning entirely on militarism. The land was allotted to the nobility in immense tracts on condition of furnishing sup-

plies of troops or money to the king for carrying on war. Each nobleman usually divided all his estate not needed for the manor into three parts. One part was leased to knights in return for military service, another to civilians in return for farm labor and produce, and the remainder was left as commons for all. In addition, numerous small plots were occupied by persons who were obliged to act as menials or to hold themselves in readiness to do various kinds of unpaid work. The knights and civilians sublet their fiefs in the same way. The rights and duties under the system were hereditary, passing from father to son. No one could transfer or evade them, or change his residence without consent of his superior. The farming and laboring classes were serfs, or slaves bound to the soil, with no political rights whatever and very few civil rights which their masters could not disregard with impunity.

Under feudalism all the land was owned in theory by the Crown. Hence, when kings realized that this antiquated system, which had outgrown its usefulness, interfered with their own powers and blocked the progress of their people, their advisers found plenty of arguments to justify their course in breaking it up. On the other hand, a sense of justice made them feel responsible for the consequences of the change and urged them to strive to adjust the old to the new order of things. Feudalism, however, was not abolished by one stroke of the pen, nor was each step taken in the same way. The march of events was often attended by periods of violence and aggression when vested rights were utterly ignored, and many statutes, with long intervals between them, were enacted in every state before the complete eradication of the system. Generally the high and discretionary powers were taken first from the nobles. Next, freedom was given to the serfs, and later on the privilege to own and sell property. Finally, executive and legislative acts were promulgated regarding the land itself. In some states the nobility was arbitrarily despoiled of a portion or all of their holdings; in others, compensation was provided for the confiscation by allowing the hereditary occupants to acquire the fee only by

commuting the servitudes, tithes, dues and corvée into perpetual rents or annuities for definite periods.

The laws were often conflicting, obscure and defective, for they dealt with the evolution of a new and untried social condition wherein the rights of men were to rise above the rights of property, and citizenship was to be detached from the ownership of land. A tangle of court decisions added to the confusion. It was not until long after real estate was capable of being held by plebeians and made freely alienable and mortgageable by simple agreement that the title could be transferred without danger or trouble. This was finally brought about by requiring the instruments to be filed and recorded in public registration offices in order to be valid against third parties. But in some European countries even at present certain estates cannot be assigned or encumbered, while hidden claims are likely to appear to defeat the title of an ordinary purchaser in spite of every precaution. The ease and safety with which real estate may be disposed of within a few hours in most of the American states was possible nowhere in Europe until a comparatively recent date.

Special privileges for determining titles, however, have not been bestowed by all European nations. Germany and France are almost alone in this respect, and the privileges were granted there perhaps because the effort to organize land credit began before the idea of enforcing registration of titles and of reforming mortgage laws by general legislation was worked out. Nor, except in a few instances, have special methods been prescribed for appraising property. The estimation of values has been left usually to private discretion, and the borrower and lender have been safeguarded by limiting the amount of the loan by rules fixed by general law. Special privilege and state aid to facilitate the raising of money, however, have been a common practice. Many governments assisted and even created institutions whose purpose was to compensate dispossessed lords or supply them with capital to hire labor in place of the liberated serfs, or to furnish these freedmen with the means to purchase farms; and this plan is

still being followed to encourage young men to go back to the land or to remain upon it.

But wherever this intervention occurs it is motivated by the old feudal notion which led kings to believe that the land and its occupants belonged to them and should be subject to their particular care. As the rights and duties dropped away from the lords, they passed over to the kings and finally lodged in constitutional governments. Feudalism was frequently replaced by paternalism. England, Sweden, Norway, Belgium and some of the flourishing small states did not develop along this line, but all the other large agricultural nations took this bent, and treated the agricultural classes as dependent wards, if they gave them any friendly consideration at all.

Literature teems with stories of the ignorance, poverty and degradation of the continental European peasants up to a half-century ago. Masses of them are still so poor that they do most of their work by hand, carry their produce to market on their backs or in carts drawn by themselves or their wives, and are forced to use every miserable little economy to keep body and soul together. To call an American farmer a peasant would be to insult him, although the equivalents of the word in foreign languages convey no offensive meaning. This shows what agricultural conditions in Europe are as viewed by American eyes. The majority of peasants are landless or own plots too small to be mortgaged and have no chance to obtain more on their own standing alone. Hence, they are able to get real-estate credit only by cooperation or from institutions assisted or privileged by the state.

The feudal system did not gain foothold on American soil, so the United States has never had a complicated variety of tenures and gradation of ranks, the removal of which called for severe remedies. The principles of equality which presided at the nation's birth have been constantly manifested by avoiding special and using general laws wherever it has been possible to do so. Special legislation, either for individuals or classes, would now be revolutionary and also would deaden the spirit of those who should rely upon it. The American

farmers are better men than the European peasantry. Furthermore they are the most independent and self-reliant part of the country's population. It does not seem likely that they will demand privileges and special favors devised for conditions which have no parallel in this country, and which would do them in the long run more harm than good.

The two classes of bodies substituted for individuals as money lenders in Europe have as prime object either the benefit of borrowers or the profit of stockholders and investors. The first class has been the more favored by state aid and special privilege. It includes the *landschafts*, similar associations of borrowers, public land banks, banks operating with funds or on the guaranty of the state, besides governmental institutions or bureaus handling funds appropriated for some specific purpose relating to land. The second class comprises joint-stock mortgage companies, banks with land-credit departments, and concerns which take mortgages simply for their own investment. Some of these also have been specially privileged and aided by the state.

The provisions in the laws and organic acts under which these numerous institutions were created require detailed description to be understood; many of them, however, would serve no useful purpose in the United States, since their place is amply filled already. The American trust companies, savings banks and other banks chartered by the states, and life-insurance companies surpass the corresponding European institutions in extending real-estate credit to farmers, while the methods employed for reclaiming and settling the arid regions in the West, show a capacity for solving problems peculiar to locality equal at least to that of the land-improvement and colonization projects of any European government. From the Ordinance of 1787 which opened up the Northwest Territory, declared by Daniel Webster to be as great as the Constitution itself, down to the Federal Reclamation Act and the drainage laws of some of the states, American government has displayed an originality and effectiveness of design in the use of public resources, power and credit for individual welfare which eliminate the necessity of foreign models.

State aid as well as special privilege is such a predominating feature in the larger and more active credit institutions of some of the paternalistic nations of Europe that their results are artificial and do not afford a criterion by which to judge the actual credit value of land—a point to be borne in mind in examining their systems of organization. The interest rate on a mortgage made from free or cheap money advanced by the state, or raised by the sale of bonds guaranteed by the state or issued by an institution connected with the state, reflects ultimately the public standing and credit of that state, and naturally is often low. The chief if not the only lessons to be learned by a study of European land-credit systems are the wonderful benefit to farmers of unrecallable long-term reducible loans, and the ease and abundance in which money may be obtained for them by the issue of debentures or mortgage-bonds secured either by the solidarity of groups of landowners, or by the assets of a company officially supervised and properly managed.

CHAPTER III

LONG-TERM LOANS AND AMORTIZATION

Definition—Four Methods of Extinguishing a Loan—History of Amortization Plan—Two Advantages of Amortizable Loans Repayable by Annuities—Relation of Value of Land to Loans—Amortization Impossible for Ordinary Money-lenders—Absolute Safety Necessary for Bonds of Amortization Companies.—Debentures the Key to the System

A LONG TERM for real-estate credit in Europe is any period of from ten to seventy-five or more years. A mortgage-bond is a promissory note of the maker, secured by designated mortgages held in trust. A debenture is secured, not by designated mortgages, but only by a floating charge against the assets of the maker. It may be a promissory note and mature at a certain date, but when used for long-term operations, it is generally made in the naked form of a certified acknowledgment of indebtedness, having no fixed time for maturity of the principal, or else calculated to run for the length of the loan against which it is issued, and withdrawable by lot or at the will of the maker alone; until so recalled it does not entitle the holder to any right except the receipt of interest.

There are four methods besides payment in full of extinguishing a reducible or amortizable loan. The first is by equal instalments. Under this method the borrower obligates himself to pay a specified portion of the principal together with the interest annually, semi-annually or quarterly. For example, for a loan of \$4,000 payable within 20 years, he may pay 40 semi-annual instalments of \$100 each, plus of course the interest due on remaining principal; or he may make 15 semi-annual payments of \$50 each, followed by 10

of \$100 each, and finally by 15 of \$150 each, thus reserving the larger instalments for later years when the interest charges become smaller.

The second method is that employed by the German land-schafts. Here the borrower obligates himself to pay the interest on the full original amount of his loan, and, in addition, one-half of one per cent or more per annum as long as it runs. All of this extra payment not needed for expenses is put into a sinking fund and carefully invested to redeem the debentures given to him for his mortgage. Since the accumulations to his credit depend upon savings and profits made by the landschaft, there is no way of foretelling when the debt will be cancelled.

The third is the method of the Austrian and German savings banks. Here also the borrower pays interest on the full amount of his loan, plus one-half of one per cent or more per annum as long as it runs. The excess is credited to him as on a deposit account drawing interest. When this account and the loan account balance one another his debt is cancelled. The rate paid by the bank is always lower than that paid by the borrower and is subject to frequent changes; hence, as in the landschafts, the date of the extinction of the debt cannot be fixed in advance.

The fourth is the French method generally called true amortization. Here the borrower executes a contract, secured by mortgage, to pay annuities to the company in consideration of the sum loaned. The annuity which must be paid to amortize this sum is determined by the length of the credit and the agreed rate of interest; it remains level during the entire period of the loan and is usually paid in semi-annual instalments. When a payment is made, the company deducts therefrom the interest due itself and applies the remainder to reduce the principal of the loan. Hence as time progresses the deductions for interest grow smaller and smaller and the portions available for the principal correspondingly larger until the debt is completely extinguished. For example, on a \$1,000 mortgage loan for 30 years at 4.30 per cent per annum the semi-annual annuity is \$29.82218. In the second

half of the fifth year \$19 74399 of this annuity is used for interest and \$10.07819 for the reduction of the principal. In the fifteenth year the larger portion, \$15 42233, is for the first time set aside for the principal, and thereafter this portion rapidly increases in size. In the twentieth year it becomes \$19.07803; in the twenty-fifth year \$23 60029, and in the thirtieth or last year all except \$0 62765 of the annuity is applied on the principal, and nothing remains to be paid.

It is commonly stated that the repayment of mortgage loans by amortization was devised by a bank in Stockholm in 1754, but the germ of the idea is found in practices which preceded that date by many years. Reference has been made already to the commuting of the rights of masters against serfs to annual dues at the end of feudalism. There were other reasons for creating such encumbrances. Contracts for perpetual or long rents were entered into as a means of evading the law and effecting the transfers of lands which could not be legally alienated. These contracts were given also, in satisfaction of debts or for the recovery of loans, to the Church and devout Christians whose sensitive consciences would not allow them to act in the open as money lenders because of their belief that all interest was sinful usury and forbidden by the Bible. Hence, the groundwork for the establishment of amortization in Europe was well laid; its adoption and development, nevertheless, were exceedingly slow.

From Sweden the idea passed over to England and thence back to the Continent. Frederick the Great seems to have had an early knowledge of it, for he said at a meeting of the landowners of Brandenburg on January 18, 1776: "I will gladly let you have 3,400,000 thalers (\$2,427,600) at four per cent. This will give you a *fond d'amortissement*." George III, who was the common sovereign of Great Britain and Hanover, had a clear understanding of the principles of amortization. The charter which he granted to a credit association at Cella for the nobles of Lüneburg, provided that the loans should be repayable by annuities of not more than five per cent, out of which one and seven-tenths per cent for the first five years and one-eighth of one per cent thereafter should be placed in

the sinking fund. Two per cent out of the annuities of new members could be so used for the first five years. If the association had to issue debentures bearing more than three per cent the higher rate could be obtained only by "prolonging the amortization period" of the borrowers, a phrase which shows unmistakably an intention to apply correct principles. The first actual use of these principles on the Continent, however, was by the credit association founded for the Grand Duchy of Posen, June 28, 1821. The debentures of this concern were subject to an amortization of 41 years, and the borrowing members in consequence paid one per cent for redemption in addition to the four per cent on their mortgages and one-fourth of one per cent for expenses. All the old German *landschafts* evolved their methods and put them in general practice in 1839 or thereafter, and France began upon her method in 1852.

Two general advantages inhere in amortizable loans of the fourth kind, repayable by annuities. The accumulation of the fractional payments builds up a sinking fund which makes any debentures issued against the mortgages more secure as time progresses, and assures their final redemption. The same process likewise enables the borrower to utilize his small savings for the reduction of his debt, and practically to adjust its size and length and the amount of his annual dues to the capacity of the land and himself for repayment. The latter advantage was the aim of the oldest institutions. The nineteenth century dawned in Europe upon a land overwhelmed with debt, which continued to increase. In France, in 1852, interest and taxes were absorbing two-fifths of the revenue of the soil, and France was in no worse plight than her neighbors. Farmers and landowners were not seeking new loans, for they had stretched their credit to the limit. Creditors and claimants had placed them on the verge of bankruptcy. What they wanted was some way to convert the existing indebtedness into obligations with more equitable and tolerable terms. The nature of this necessity led directly to the long-term loan, amortization and the debenture. The making of safe and convenient securities for investors was a secondary

matter which received attention later on. The main objects of the European governments in the organization of real-estate credit until after the middle of the century was to relieve debtors, to pass their burden on to future generations if need be, and have it paid off gradually by the slow returns of the soil.

Land owned for use by the proprietor is worth all its net returns; held for speculation or for some reason of sentiment or fancy, it may be estimated by other standards at a far greater price; but considered merely as security for a loan, it can be valued only by a portion of the returns, or what remains after paying taxes, making repairs and allowing the farmer enough to live on. If the farmer's share be increased so as to afford him a fair compensation, the remainder would be proportionately smaller and practically would correspond with the rent. Now the rent in old, thickly settled communities is no more than three per cent of the selling price of land. Hence, political economists like Adam Smith and Jean Sismondi contended that capital sunk in the purchase of real estate can never be recovered, because its returns are sufficient to pay only the interest at the lowest rates. This theory of course could be true in practice only for a loan which equals the full selling price of the mortgaged land or exhausts all its credit value. A smaller loan may be made at a high interest rate and with quick maturity since it has all the returns and the security of a safe margin to fall back upon.

These opinions nevertheless carried great weight and left their stamp on the early legislation. The annual sum which the German *landschafts* required a borrower to pay into the sinking fund averaged only a fraction of one per cent of the principal of the loan. This provision is still in force, and in consequence the members of the *landschafts* are mostly persons who wish large loans and give mortgages which cover their entire properties. The maximum for licensed land-credit companies in France was put originally at two per cent, but eventually it was changed by an amendment which forbids the borrower to obligate himself to pay a larger annuity than the revenues of the mortgaged property.

The French restriction proved to be better than the German because, while protecting the borrower from the temptation of entering into a contract to pay back a loan faster than he can make it or its equivalent out of the soil, it permitted him to utilize the entire credit value of his holdings either for a large long-term loan or for a smaller short-term loan with higher interest and dues in case of an urgent necessity. This freedom of action resulted in the use of various combinations of interest rates and loan periods, and gave full play for the first time to all the possibilities of amortization, "without which," says Royer, "every real-estate credit system is an incomplete and fragile scaffold, deceiving the public and endangering the welfare of any nation relying on it"

But this amortization, so needful and beneficial for farmers, is practically an impossible operation for ordinary money lenders. No individuals and but few companies can afford to tie up their capital and take it back in dribblets as it is refunded bit by bit out of the earnings or savings from the soil during a long series of years. The only type of concern which can accommodate agriculture in this way on a large scale is one authorized and able to issue and sell debentures and thereby to recover immediately the money so sunk regardless of the length of the loans. Furthermore, the concern must be large and so organized and managed that the annuities will flow in sufficient volume to form fairly large amounts for profitable investment, and that the sinking fund thus accumulated be guarded as securely as the reserves of a life-insurance company, for the retirement of outstanding debentures and the liquidation of its borrowers' loans. These annuities, less the interest charges, should be placed at each payment with their earnings to the credit of the borrower's account in the sinking fund, so that compound interest may run in his favor against the company or against bondholders in the company's favor. In this way the borrower never has actually to repay the full amount of his loan, or else he may get the lowest interest rate on it.

Long-term operations may endure beyond the lives of the contracting parties, and consequently investors will not buy

the bonds of an amortization house nor landowners enter into annuity contracts with it unless they be assured of the absolute safety of the transactions. There must be complete confidence and strength and stability approaching permanence for such an institution to continue in business extensively. For this reason, besides being specially privileged in some countries, amortization houses are subject to more rigorous regulations and restrictions than ordinary money lenders, with the view of safeguarding the rights even of generations to come and also of keeping the door of the money market continually open to them. Most of these regulations relate to the debenture, the key to the success of the system, which, as drawn in Europe, has never been used in the United States in real-estate credit.

CHAPTER IV

DEBENTURES

Land as the Basis for Issue of Paper Money.—History of Experiments in England, Prussia, France, and the Colonies.—Land Good as Such Basis Only if Owned by Government.—Not Possible as Basis for Bank Loans—Characteristics of Debentures.

THE form and use of the debenture grew out of the old ideas of making the land a basis for the issue of paper money. Some of these ideas left lasting impress on history. In the middle of the seventeenth century, when commerce in England was awakening and inland bills and promissory notes came into general use (1645), the need was felt for a bank to act as a clearing house for the nation. There were banks on the Continent which issued notes against coin deposited in their vaults. English financiers, however, suggested that goods and merchandise also be adopted as a basis for currency. There soon followed the argument that land, being stable, imperishable, and not capable of being stolen or removed, would be even better than coin or goods and merchandise for this purpose, and an active propaganda was started for the establishment of land banks which should emit notes. The discussion ended in the founding of the Bank of England in 1694. This institution, however, did not meet with the immediate success promised, and the agitation for land credit was revived and conducted with such vigor that Parliament incorporated the Land Bank in 1695 and the National Land Bank in 1696. The latter institution did not materialize because of the inability of its promoters to raise capital. The cause of the disappearance of the Land Bank is not known, but during its short existence it issued bills and notes which were given

and received as currency, and which were preferred to specie by many. Their form was as follows:

This bill pursuant to the settlement of the Land Bank enrolled in Chancery, Anno Dom. 1695, doth charge one hundred pound value of register secured upon lands, rents and estates, entered in Libro A No 1, and the stock of moneys and funds of insurance annexed to said bank, with the payment of one hundred pounds and interest, etc. (or without interest) to John Doe, etc.

By Order of the Trustee and Managers.

In 1705 John Law, subsequently famed for the "Mississippi Bubble," raised the question in Scotland, and in a plan submitted to Parliament for supplying the deficiency in gold and silver money, proposed that the Government appoint commissioners to appraise lands and issue notes in three modes: first, as an ordinary loan not exceeding two-thirds of the value of the land given in security: second, to give notes up to the full value of the land, and to enter into possession thereof under a bond to redeed. and third, to buy the land and give notes for its full value.

Law's plan, though strongly supported by the court party, was finally rejected. Then this remarkable man, after a checkered career as a duellist, gambler and adventurer, turned up in Paris in 1715 with about a half-million dollars of mysteriously gotten gains, revamped his Scotch scheme, gained the ear of the Duke of Orleans, and offered to found a bank of issue under the control of the state, with notes secured by land and the royal revenues. The Government declined at first to identify itself with the project, but in 1716 granted him a charter for the General Bank of Law and Company (his brother). In 1718 the Government bought the majority of the stock of this concern, renamed it the Royal Bank, with Law as president, and within a few years entrusted it or its allies with the receipt of the taxes, the farming of the revenues from tobacco and other sources, and the management of the mint, gave it a trading monopoly in the South Seas, allowed it to absorb the Senegal Company, the Company of the

Indies, the China and India Company, and also, what Law had held constantly in mind, authorized it to organize the Company of the West to which was granted the immense province of Louisiana with all its fabulous stores of precious metals, Elysian fields and infinite opportunities for making easy fortunes. But the downfall of this greatest of plungers in the realm of finance was even more rapid than his rise. In 1720 the bubble burst. The conduct of the affairs of a nearly bankrupt nation had kept him too busy in the heyday of his power to develop his pet land-credit schemes; and the sudden and overwhelming panic destroyed his hopes forever. His desperate attempt to shore up his tottering system by ordering the Company of the West to receive the bank's notes at par in stock sales disclosed the weakness of both and brought down the whole in ruin.

The next stage in the development of land credit was its organization in Prussia in 1769, and this is the most important of all, because in the establishment of the Prussian system land debentures were first devised: and yet Frederick the Great, in the edict legalizing their use, declared that they should, "at sales of estates, payments of loans, etc., be taken and circulated as coin in the same way as the parchment mortgage instruments in the dukedoms of Schweidnitz and Janer." This allusion must be explained. In Schweidnitz and Janer real property could not be encumbered by a mere contract between the parties. Judicial proceedings had to be brought and the consent of the court obtained, and after that the transaction was concluded, not by two papers, a promissory note and a mortgage, as in the United States, but by one official document signed by the parties, the judge and clerk, and duly recorded. Documents like this very naturally were used as money in the absence of other currency, although they did not bear the fiat of the Government.

Paper money based solely on land was issued during the French Revolution. In 1789 coin had vanished from France and the people were unable to pay taxes. The bloody and lawless Government was in dire distress. To save itself from

bankruptcy it confiscated the lands of the Crown, the Church, and, later on, of fugitive emigrants. The intention was to dispose of these lands for public purposes. The sales, however, were too slow to satisfy fiscal needs, and the Government decided to issue notes in the nature of mortgage-bonds against the national domains as a substitute for metallic currency. The first notes, called "assignats," bore five per cent interest, were redeemable within five years, and were given the preference over other kinds of money for the purchase of these lands. It was presumed that a holder who did not wish to buy lands could get the face value of the notes from some one who did and that thus the whole issue would be gradually retired.

In 1790 the assignats were made legal tender and enormous quantities of them were put in circulation without just ratio to the land. The land was repeatedly reappraised and overestimated. Hence the assignats underwent rapid depreciation. Perhaps if Mirabeau's advice had been followed and the issue confined to one-half the value of the land, they would not have suffered the usual fate of inconvertible money. But nine billions of dollars of them were emitted, and even the penalty of death provided for all creditors who refused to take them could not for long stave off the disastrous end. In 1793 the Government ceased to issue assignats and tried to refund them by a new form of currency called "mandats." The difference between the two forms was that the mandats enabled the holder to take immediate possession of public lands, whereas the assignats could be offered only in lieu of cash for the purchase price. But this expedient did very little good, and the Government had to resort at last to repudiation, and in 1797 declared all this paper money outstanding to be null and void.

America also established bank credits upon land security. In fact, cooperative land credit was conceived and used in New England 39 years before it appeared in Europe, while the land banks of some of the colonies antedated similar institutions in continental Europe by more than a century and actually practiced what had been attempted previously in

England without success. As early as 1686 a plan for a bank to issue bills and give credit on real estate, goods and merchandise was approved by the Governor and council of the province of Massachusetts Bay, with the recommendation that such bills "be esteemed as current money in all receipts and payments," even for His Majesty's revenues. This plan fell through in 1688, but the contention that land was better than specie as security for bills was persisted in and spread far and wide.

Pennsylvania was the first colony to take a definite step. In 1722 trade had come to a standstill owing to the lack of an adequate medium of exchange. Four or five rich importers had bought up and engrossed the staples of food and wear. They sold them back at high prices, and thus got hold of all the hard money, which they loaned out at eight per cent and placed most of the tradespeople in their debt. Many failures and general distress resulted from this oppression, to meet which the Government founded the Public Loan Office managed by four official commissioners, to which was given power, to emit bills.

These bills were drawn without interest in small denominations, the largest being \$100, and they were issued only to borrowers, who had to give a promissory note with bond for judgment, repayable in 12 annual payments at five per cent and secured by mortgage on land worth double the amount of the loan. No borrower could obtain less than \$100 or more than \$1,000 of these bills. The Office was inspected by a committee of the legislative assembly, and accounts were settled every six months. "It is inconceivable," says history, "what prodigious good effect immediately ensued on the affairs of the province. Commerce revived with England, Scotland and Ireland. The poor middling people, who had lands or houses to pledge, borrowed from the Loan Office, and paid off their usurious creditors, and the few rich men had to build ships and launch in trade again." Having accomplished its object and broken up the money trust, the Office went out of business after its bills were all redeemed.

In 1730 or 1732, 61 influential landowners of the colony

of Connecticut obtained from the assembly a charter for the New London Society United for Trade and Commerce. They paid for stock subscribed by giving their promissory notes due in 12 years at five per cent secured by mortgages on their lands. The Society was authorized to emit bills without interest against these secured notes, which it agreed to accept as money in all payments to it. In other words, the Society operated solely with credit capital and the only borrowers were its stockholders, who had control of the management. This was cooperative land credit pure and simple, and gives to Connecticut the honor, which is usually accorded to Germany, of being the birthplace thereof.

The bills of this Connecticut association were phrased in the form of the public paper issued by the colony. They became popular immediately and were freely used as money by the people. But this "swift currency of the New London Society bills through so many hands," as Governor Talcott records, aroused suspicion as to the object of this novel and unfamiliar device. The next year he caused the assembly to decree the dissolution of the Society for arrogating governmental rights and to order the bills to be recalled. The notes and mortgages were then assigned in trust to the Governor and he proceeded to wind up the concern whose affairs continued to occupy the attention of the assembly until 1749. No question was raised, however, as to the soundness of these bills.

The most memorable of these colonial projects for utilizing land as security for public or private bills was the Land Bank or Manufactory Scheme launched in Massachusetts Bay Province in 1740. The share capital of this association was \$750,000, of which no individual member was allowed to hold less than \$500 or more than \$10,000. Subscriptions were not payable immediately in cash. Each subscriber agreed to pay five on the hundred of the principal and three per cent use-money annually until the whole amount was paid, and to give a mortgage on an estate in land to secure these payments, which could be made in produce grown or manufactured in the province. The association planned to issue 20-year bills

of small denominations without interest up to the full amount of this share capital. These were redeemable only in produce, but the association and the subscribers, so long as they held shares, were obligated to receive them for all payments and in trade and business when tendered by anybody. All members were jointly and severally liable, were the main borrowers, and had votes in proportion to their subscriptions; hence in its general outlines the association was similar to its co-operative prototype in Connecticut.

The directors of this extraordinary financial experiment were among the most prominent citizens of Boston. Judges and legislators were connected with it. Adroit methods of promotion had worked the people up to such a point of fatuity that the majority believed that the means had finally been found for creating the medium of exchange so much needed for relieving the misfortune and poverty of the country. Over a thousand persons subscribed for shares and a number of towns agreed to accept the bills of the Bank for taxes.

It must be remembered that in those days the principles of paper money were not clearly understood. The sober-minded citizens, however, realized the dangers which lurked in the Bank and, backed by the provincial governor, they proceeded to suppress it. This was done by having the British Parliament apply to the American colonies the Bubble Act which had been passed in 1720 to stop the craze for speculation fomented in England by John Law's mad schemes. Armed with this law, promulgated in 1741, the opponents of the Land Bank forced it into liquidation. Near-riots broke out, severe measures were used, and almost 30 years elapsed before litigation regarding its affairs disappeared from the courts. The foreclosures, attachments and arrests made by the royal Government upon the property and persons of the numerous members of this unfortunate concern to settle its debts, engendered, according to Samuel Adams, as much ill will as the Stamp Act.

The historic incidents described above show the various ways in which land has been used as a basis for money and

bank credits, public or private, vagaries of the old dream of mobilizing the soil. As a basis for inconvertible money, land can serve no purpose whatever except as a measure for the output, and since the percentage of value to be taken for the measure may be adopted or changed at will, the security of such money really depends upon the honesty and standing of the government and not at all upon the land. There is no denying, however, that land may be used to a certain extent for convertible money, provided the government is the owner. The French assignats were good until the revolutionists perfidiously violated their faith. Similar instruments, the scrips formerly issued in large numbers by the federal and state governments in the United States, which entitled the scribee or his assigns to allotments in the public domain, were always in popular demand. In fact, as the available area for homesteads decreased the value of these certificates, although given as bounty or for insignificant money equivalent, rose to near the selling price of land, and they were speedily bought up by settlers and all redeemed. Divided into coupons and made legal tender, they would have been accepted as a safe and fluid currency, but it would not have had any stability, because its volume would have been subject to diminution as the land was sold off.

If the government owned no land and should issue money against mortgages on lands of others, it would simply be playing the rôle of a lender, with all the attendant costs and risks in establishing its security. It would have to lend to all landowners equally to avoid class legislation or special privilege; and this would mean that individual loans would have to be small if the issue were to be kept within reasonable bounds. Hence the government would find this kind of money exceedingly expensive. Moreover, it could not prosecute defaults to foreclosure and eviction in the event of panics, bad crops or hard times without being held up to public execration. As a consequence this money, founded on something which could not be realized upon or removed, would always remain in the country and drive out the good money.

These objections, which bar land as a basis for money, may

be urged also against its use as security for bills of banks, whether controlled by private parties or by the government. A bank with one-fourth of its capital and surplus in real-estate mortgages and one-third of its time deposits in loans of the length required by agriculture would be likely to be the first to go to the wall in a panic, unless its borrowers were mostly depositors and stockholders of the bank, as in the case of a cooperative credit society. A deposit bank which should immobilize its assets to such an extent would in fact completely denature itself and become an investment company. If banks must depart from the established usages of trade and commerce, they should be empowered to issue debentures or long-term bonds and permitted to make their mortgage loans only out of the funds raised by these instruments. Deposits are entrusted to the banks upon the understanding that they may be withdrawn at will or at a time agreed upon. The custodians should not be allowed to abuse this trust by sinking them in loans which the average depositor would not care personally to make. Deposits are circulating capital and should be preserved as such.

The organization of land credit depends upon the careful observance of this distinction. Landowners cannot be financed by deposits. Their needs call for investment capital, and this can be obtained with safety and profit only by institutions authorized to issue debentures. The form and effect of the debenture in Europe, as already indicated, are an evolution proceeding from the unrealized dream of mobilizing land values for paper money. Tentative projects proved the folly of this hazy dream, and led Europe to reject also that other mistaken notion that land may be used as a security for bank credits. Out of original error the true principles sprang to light and evolved the debenture, which has come as near to mobilizing land values as that object can be attained.

The only characteristics of money which have been retained in this instrument of land credit are that it may be made payable to bearer, is in small denominations, without fixed time for maturity, and is exempted from taxes. The circulation of the debenture has been facilitated by simplify-

ing the formalities for transfer and by making it a legal investment for almost all kinds of funds, while its redemption has been assured by statutory limitations which prevent excessive issue. The status and regulation of the debenture, however, vary in different countries.

CHAPTER V

THE ORIGIN OF THE GERMAN LANDSCHAFTS

German Institutions for Credit—Number and Location of Landschafts.—Definition of Landschaft—Landschafts Now Voluntary But First Compulsory—Origin in Prussia After Seven Years' War.—Buring's Plan.—Arguments for the Scheme—Adoption and Success.

THE German Empire comprises four kingdoms, six grand duchies, five duchies, seven principalities, three free towns, and one territory. The division of government between the Empire and its constituent parts is somewhat like that between the nation and states in the United States. Besides the imperial legislation on the subject, many special and general laws relating to real-estate credit are in force in these 26 states. As a consequence there is a great variety of German institutions especially organized for according such credit, many of which were chartered long ago, in the days of independent sovereignties. These institutions may be classified generally as landschafts, public land-credit banks, land-improvement associations, governmental institutions for assisting small holders to acquire homesteads, and joint-stock mortgage companies.

The landschaft is the original type of the land-credit institution, and it is considered the best because it can lend money at the lowest interest rates, be most lenient to debtors in default, and issue the safest securities for investors. There are 23 institutions of this kind. Of the larger German states, only Baden, Hesse, Oldenburg and Alsace-Lorraine are without any. Eighteen are in Prussia and cover all that kingdom except the Rhine Province, Hesse-Nassau, the Municipal District of Berlin, and an enclave in Wurttemberg.

known as Hohenzollern Land; eight of the Prussian landschafts have combined to form the Central Landschaft. Saxony has two landschafts, and Bavaria, Wurttemberg, Mecklenburg-Schwerin, and Brunswick each have one. In Wurttemberg the landschaft accepts mortgages on both rural and urban properties, but the landschafts in the other states lend only on lands outside of the cities.

Each landschaft was created by a special provincial act which gave it the right in perpetuity to operate within its prescribed area and vested it with such official powers as to make it a branch of the government. There is no general law relating to landschafts except the Prussian law of 1897 which extended the landschaft privileges to all which should be founded before 1900. No persons took advantage of this law nor has any landschaft been organized in recent time for farmers outside of Bavaria, so it may be assumed that there is no need or inducement for an increase in their number. Those which date back to the eighteenth century are known as the old landschafts, the others as the new landschafts; and one consisting entirely of noble estates is called a "ritterschaft."

A landschaft is an association of landowners, supervised and controlled by the government, and empowered to issue debentures on the joint and several liability of the members and to give them to members only, in exchange, however, for their several obligations, secured by mortgages, to make stipulated payments into its treasury at stated intervals; it is further empowered to receive, invest and finally apply these payments for the redemption of the debentures as they mature. Several concerns with shares, chartered under the cooperative law, are sometimes ranked with the landschafts, but the real landschafts have no capital stock, nor do they possess any cooperative feature except the mutual liability of members and the meager right allowed to them to vote for lists of officers to be presented to the Crown for approval, and in the circles on a few other affairs.

Although the first of the landschafts was founded in 1769, the existence of these institutions was scarcely known

outside of Prussia as late as 1845. Charles Edward Royer, Commissioner of the French Ministry of Agriculture, in a report rendered in the latter year said: "It would be difficult for me to express the astonishment which I felt at Stettin and Breslau, where the landschaft had existed for more than three-quarters of a century and placed in circulation over 30 millions of dollars of debentures, upon learning that public officials and wealthy citizens were unable to give me any information about the association, which they hardly knew by name. The bankers especially spoke lightly of the association, and this struck me as strange at first, although it was entirely natural among men accustomed as they to consider the importance of financial operations by the rapidity of the flow of money and the big profits resulting therefrom for them."

The landschafts are still little considered in the financial world, since they have small paid staffs of employees, avoid all speculative ventures, and make no effort whatever to increase their business, while their debentures circulate only within their respective provinces and represent mainly the loans which early members obtained with the intention of leaving them as a permanent burden upon their estates.

All the new landschafts are voluntary associations, but the oldest was compulsory, the nobility within its jurisdiction having been obliged by royal decree to become members. This arbitrary proceeding was taken as a measure of public necessity, to bring financial relief to sufferers from the devastation of the Seven Years' War, and it saved 400 of the best families of Silesia from ruin, as related by Frederick the Great in one of his letters. The victories of this conqueror had been dearly bought. He made of Prussia a mighty nation, but burdensome taxes and the ravages of contending armies had brought trade and commerce to a standstill and pressed with particular severity upon agriculture and landowners. A fragment of a manuscript of Professor Dieterici, then director of the statistical bureau of the Ministry of Agriculture at Berlin, portrays the damage done to private property by this war, and says that de Struensée, the Prime

Minister, attributed the land-credit troubles after the peace of 1763 to the following causes:

Many states had been entirely ruined, notably those in which the armies had been encamped for a long time. The soil remained, it is true, but all which was necessary for giving it value had disappeared. Buildings were burned. The scattered livestock had died of hunger. Farm implements were rusted and rotten, and the fields lay uncultivated. The value of the land had diminished 50 or 60 per cent, and where the owner owed a big part of the price at which he purchased it before the war, he was utterly unable to pay the interest on his debt, to say nothing of the principal at maturity. Numerous defaults were made, and the resulting foreclosures reduced land values still further and excited distrust in the money lenders as to the worth of the security, who thereupon demanded repayment of all sums advanced and brought about a crisis.

During the war landowners had obtained high prices for farm produce, and had paid in Saxon tiers not only taxes but even interest dues in this inferior money. This sufficed for a while as a compensation for the cattle and supplies which the armies had foraged off their lands. But after the peace everything suddenly changed. The price of produce fell. Taxes and interest were required to be paid in specie of the standard of 1764, and the cost of labor continued to rise. Moreover the landowners, who had been tempted into extravagance by the high prices they received during the war, were unable to change their habits, and their ruin became inevitable.

The first remedy which Frederick the Great employed with the hope of relieving the indebted landowners was to ignore the rights of the creditors and stay by royal decree the payment of interest for three years. The stay law, subsequently extended for another period, utterly destroyed the credit of all who resorted to it and left them at the mercy of usurers. The few loans which were granted drew 10 per cent interest with two or three per cent of commissions. Dr. Fassenbender adds that lenders also, having reserved the right to demand payment on a few months' notice, availed themselves of this privilege for exacting new commissions repeatedly.

Finding that his remedy only intensified the miseries and dangers of the situation, Frederick the Great decided to reconsider a plan submitted to him by an obscure merchant named Buring, who evidently had studied John Law's old schemes. This plan was based on the idea of creating a public intermediary between lenders and borrowers, and using the combined estates of landowners as a collective security for debentures. A translation follows:

The true capital of a country consists in cash and land. The value of the latter is ten times greater than the former, and if only a small portion of it were mobilized, it would abundantly suffice for the credit needs of the kingdom. This could be accomplished by establishing a land union bank (*landschaftscasse*) with power to make a valuation of all the estates of the nobles when requested and to lend them one-half or two-thirds thereof on mortgage so that they may pay off pressing creditors. The loans should be made in the following manner.

First, provincial mortgage-bonds or debentures shall be issued in denominations of \$360 and \$720 payable to bearer with four per cent interest, guaranteed by the land-credit bank and secured by the estates mortgaged to it. The bank shall give debentures to each landowner up to one-half or two-thirds of his estate as may be determined by the management.

Second, landowners shall pay four and a half or five per cent semi-annually to the bank on their loans, but the bank shall pay only four per cent once a year to the holders of the debentures.

Third, the difference of one-half or one per cent shall be left at the disposal of the bank for meeting expenses and salaries. Any remainder, together with the income from the use of the semi-annual payments, shall be set aside as a separate provision against accidents, such as death of livestock and damages by hail, fire, droughts, or war, because in these cases the nobility might not be able to make their interest payments out of their damaged estates. In such an event the estate should be re-valued and the damage made good out of this fund.

Advances may be made up to only one-half or two-thirds of the estimated damages, according to the plan used for the original loan. Rules for estimating damages shall be fixed by the King's Cabinet. Since Your Majesty has graciously promised

a capital for this enterprise, the interest thereon might be used for this fund.

If anyone fail to make his semi-annual payments promptly, his estate should be offered for sale at once. I do not favor receiverships, for they are an eternal curse.

Fourth, matters relating to the estates of crown tenants shall be decided by three nearest borrowers of the same class, or better still a special arrangement for loans should be provided for them

Fifth, care should be taken that no defaults occur, and that the principal and interest of the debentures be never altered

Sixth, inasmuch as this great and important work would require some cash to begin with, it might be well for your Majesty to set aside a fund for this purpose. Otherwise the Banco [a commercial bank then in existence] might get enough money at three per cent to buy up these four per cent debentures and draw the interest out of the country and ruin it. Furthermore, the Banco should be required to sell debentures with accrued interest immediately upon their coming into its hands.

Seventh, there is no need to have the name of the debtor or a description of his estate appear in the debentures. They should be made payable to bearer. Thus they would have easy negotiability and also be as good currency as banknotes, for there is no reason to suppose that many of them would ever be returned for redemption. In a short time they might be quoted at a premium.

This great project could be started at once without many conferences or discussions, because it would be voluntary for everyone to avail himself of its assistance. No guaranty of the province will be required. The guaranty of the bank and the mortgaged estates would be sufficient, if legal remedies were provided to assure prompt recovery.

Eighth, severe penalties should be imposed on any person who should take any of these debentures out of the country. No stranger should be permitted to purchase them either directly or through agents residing here, and thus draw the interest out of the country. In case of a violation of the law the entire principal should be forfeited, one half going to the infomer and the other half to the bank.

If a stranger should consume the interest here, no money would leave the country and the matter would adjust itself. This would be better than borrowing the capital abroad at the

lowest rates, for in this latter event, the entire amount borrowed would go out in the way of interest, and the country would still have to pay the principal.

In Holland, for instance, the provincial bonds yield only two and one-half per cent and are not payable to bearer as these debentures would be. How much more valuable these debentures would be with their four per cent interest and easy negotiability which would enable them to be exchanged for cash any day! Would not the Hollanders absorb this paper without our noticing it and finally ruin us unless precaution be taken?

Ninth, the business and privilege of the post office in transferring money from place to place would perhaps be seriously interfered with if debentures equal to the amount of the landed debt and accrued interest be issued and become current as cash in trade. So one-fourth of one per cent tax should be charged upon transfers of these debentures.

If it should ever become necessary to withdraw these debentures from circulation, the retirement could be accomplished easily and gradually by forbidding other lenders to charge more than four per cent interest on mortgage.

The interest rate on money would naturally fall as soon as an abundance of currency had been obtained through the issue of these debentures. The landowners would then be able to obtain new loans at four per cent or less. They need not wait for action by the bank. They could take the debentures over to the bank, which would at once cancel their mortgages. Thus the debentures would disappear from circulation owing to the fact that the interest rates of the bank were one-half of one per cent or one per cent more than those of other lenders.

Methods should be devised for retiring these debentures as well as arranging for a plenty of them, according to the safe rule which must be followed invariably in matters concerning the state. Otherwise they would lose value as currency; and when the end had come, as the proverb says, "the purse is worth as much as the money." It would not be difficult at all to cause property to rise over 50 per cent in value by increasing the volume of currency; but the state must observe correct financial principles, and see that money, real estate and goods be kept at fair proportions, else the best arrangement would fall to pieces and one thing after another be ruined.

The objection may be raised, How is this plan to help those

landowners who already owe debts exceeding three-fourths or more of the value of their estates? The answer is that what has been said above clearly shows (a) that even they would profit from this plan because, the supply of money being increased, they would not be pressed so much by their creditors; and (b) even if their properties should be put up at forced sale, they would be sold at 20 to 30 per cent over the present price, because every purchaser would know that he could immediately get back an amount of cash equal to one-half or two-thirds of their appraised value.

At present, however, properties are often sold at less than their appraised value, and hardly one-half of the mortgage creditors recover all their loans. Although there perhaps would be no surplus at the sales under this plan, yet this ruinous loss could never occur. There is no way to help a debtor who falls in debt over and over again, except by making him a present of money.

The majority of the nobles may now be regarded as ruined, in view of the present condition of their estates. The number of livestock is insufficient, causing a lack of manure and consequently poorer crops. How are they to pay their interest? Their estates are deteriorating daily and decreasing in value. If you go back to the serfs who depend on their helpless landlords in case of crop failures or death of cattle, where will you find the dues which must be rendered to the king? The loss suffered by landlord and tenant on account of the deteriorated fields falls likewise upon the king and the entire country.

It would also be desirable for Your Majesty to allow the benefits of this plan to be extended to the owners of lands improved by buildings in the principal cities of the kingdom. This could be easily arranged, and would stop hundreds of lawsuits and save great numbers of persons from the misfortune of losing all that they possess.

Properly arranged and carefully managed, this plan might be of great advantage for the entire country, and give the state an inner strength surpassing all expectations.

The arguments advanced by Buring in support of his plan are well understood in these days, but they were new to his time. He called attention to the fact that money lenders would not make loans unless they were able to ex-

amine the property and investigate the character of the owner; and that inasmuch as they were likely to make mistakes in judging values and the capacity for repayment, they invariably compensated themselves for the risk incurred by charging the borrower with an insurance premium in the form of high interest rates. Money lenders, moreover, although satisfied with the soundness of mortgages, were often deterred from making such investments on account of the immobilization of their capital resulting therefrom.

In Prussia, it was true, lenders had the right of exacting repayment upon a few months' notice, but even this short delay frequently deprived them of a chance for some good bargain. Besides they were never sure that the borrower would be able to repay at maturity, and they dreaded the heavy expenses of foreclosure in the event of a default. The lenders of course might sell their claims instead of calling them in. This, however, was an empty right, because purchasers could not be found at will. But an establishment which occupies itself habitually in seeking and accepting disposable capital, in Buring's opinion, would not encounter these difficulties, since it would be in a far better position to attract money lenders than an isolated landowner who does not maintain constant relations with the investing public. So he proposed the foundation of a great central land-credit bank with powers to issue debentures against mortgages on the estates of all persons in the kingdom, and he thought that these would circulate as ready money by reason of their soundness and popularity, if official supervision were provided.

Buring's plan led directly to the organization of the land-schafts, but it was materially changed before being adopted. Frederick the Great discarded the idea of a central institution for that of a separate landschaft for each province, excluded urban and plebeian properties as securities, and confined the benefits entirely to the rural estates of the nobility. He also required the names and estates of the borrowers to be mentioned in the debentures, but in other respects he went the full length of Buring's suggestions in trying to

make these instruments of land credit pass current as paper money.

The first landschaft was the one created for Silesia by a cabinet order signed by Frederick the Great on August 29, 1769. The order blanketed all the rural lands of the nobility in that province with a perpetual lien in favor of the association as a security for any debentures it might issue, decreed these noble farmers to be members thereof, and enjoined them to assemble and complete its organization. This was done on July 15, 1770, and the King granted the landschaft \$216,000, later increased to \$432,000, and also subjected the crown lands to this collective liability.

The association appraised all the lands within its jurisdiction, took mortgages from the members who wished credit and gave them debentures in exchange. But it had no arrangement for amortization. It did not even collect the interest on the mortgages. Payments were made directly by the borrowers to the lenders as before. The holders did not have any recourse against the association in the event of default in payments on the debentures until they had exhausted their legal remedies against the persons and estates named therein. Then if the association were called upon, it could bring its special summary proceedings against the delinquent, and if the judgment were not satisfied by him it could levy assessments on the other members for the deficiency.

It will be seen that the landschaft as first devised was not intended to alter the direct relation between the borrower and the lender. It acted simply as an impartial intermediary between them without any responsibility or duty on its part except to see that the mortgages and debentures were properly executed and to enforce the collective liability of the members on the defaults. Being founded and financed by the government and connected with it, the association was in truth its official organ for refunding the enormous mass of debts which encumbered the land as a result of the war and public disorders and converting them into obligations with reasonable terms. It accomplished this purpose so well that

the interest rate was immediately reduced to five per cent and soon afterwards to four per cent, and this success induced the nobles in five other Prussian provinces to form associations along the same lines

Nevertheless these old associations underwent changes in the course of time. The objects and methods which they and the new associations subsequently formed now pursue differ considerably from those of the early days. Some of the first debentures are still in circulation but debentures of similar form are issued no more. Originally the word "landschaft" signified a stretch of land with boundaries politically or otherwise defined, and only by derivation has it come to mean the institution operating thereupon.

CHAPTER VI

THE SILESIAN LANDSCHAFT· ITS STRUCTURE

Organization—Executive Council—District Boards.—Standing Committees—General Assembly.—Permanent Committee—Circles.—Bank of the Silesian Landschaft.—Bureaus of Loans to Non-members.

ALTHOUGH called an association, the landschaft of Silesia is in fact a great public land-credit system covering the entire province, which is divided for this purpose into nine districts, each subdivided into two or more circles. Each district has an association of its own and all the associations are united under one general management; hence the organization is decentralized. Supervision is exercised by the Minister of Agriculture through a royal commissioner. The headquarters of the landschaft is in the capital city of Breslau, where it owns and operates a large banking corporation. Branches of this bank have been opened in seven of the nine districts and it does business with all comers. The districts maintain bureaus for extending credit on agricultural lands of non-members within their borders.

Silesia is about one-third the size of Ohio, but has nearly one million more inhabitants. Its area is 15,569 square miles and in 1910 it had a population of 5,225,962. The landschaft system included originally only the farm and forest lands which belonged in 1770 to the nobility and the Crown. These, whether mortgaged or not, are charged perpetually by Frederick the Great's order with a collective liability for the debentures. The lands of the Church were brought within its scope a few years later. In 1807 an edict of the Prussian King permitting plebeians to acquire estates of nobles practically eliminated the requisite of rank. In

1815 another royal edict decreed municipalities to be eligible to membership upon contributing certain sums to the reserves of the landschaft. Hence the system now embraces all rural Silesia, with the forests, mines and fisheries therein. The land of a member must be worth at least \$7,500, else he cannot become an official or a borrower. Credit, however, may be accorded by the district bureaus to a non-member on a plot yielding a revenue of only \$24 a year. The bank discounts notes given by resident borrowing farmers for sums as small as \$72.

Registers are kept at headquarters and in all the districts for recording the title, description, alterations and transfers of a member's property, together with the debentures issued against it and the mortgage given to secure them. These registers are legal and indisputable proof of their contents. If the value of an estate fall below the minimum, the owner is notified in writing, and if he offers no valid defense, he forfeits his membership, this fact is noted in the registers, and his loan is recalled. An owner is admitted to membership and his lands to registration by resolution of the permanent committee preceded by a vote of the board of the district in which the land is situated. The only reason which a person now has for joining is, of course, to obtain a loan, and he ceases to be a member after this has been paid.

All officers are selected from among members who are borrowers up to specified amounts, who possess irreproachable characters and known business abilities. They must resign if their estates are sold in foreclosure or sequestered for defaults. No one holding an office of profit or trust under the government can be an official of the landschaft unless by consent of his superiors and of the executive council of the landschaft. This rule was adopted to bar politics. Nor can anyone, clerk or official, hold two offices at the same time, or be connected with any other land-mortgage institution. The term of an elective office is six years. Officials are bonded and sworn and enjoined to observe absolute secrecy respecting the affairs of the association. They are responsible in personal damages for the strict performance of their

duties, and have rank, power and obligations as public officers. They are bound to serve if elected and cannot resign without reasonable excuse. Acceptance of reelection is optional. Pensions are provided upon superannuation and for poor widows and orphans of deceased officials.

The Silesian landschaft is administered by an executive council, district boards, district standing committees, and circle meetings. Over these bodies are the permanent committee and the general assembly.

I The executive council is composed of the president, three vice-presidents and two counselors. It is the managing head of the system, represents it against the outside world, and carries on the business in its own name.

The president is appointed by the King of Prussia from three candidates elected by the members. He must be a Silesian of noble birth. He receives no salary. He must have held office formerly in the landschaft. He is head of the executive council and presides, if he wishes, at the meetings of the permanent and any other committee. He may exercise disciplinary powers of warning and fining over the executive council and may appoint an examiner to investigate the acts of its members or of any other official, but he cannot dismiss a member of the executive council without the approval of the King. Once every four years, with one of the counselors, he must make a personal inspection of each district. His alternate in the council is the ranking vice-president. A special commissioner, appointed by the King for the period of the session, may take the place of the president in the permanent committee and general assembly.

The three vice-presidents are elected from upper, middle and lower Silesia by the members living in these divisions, subject to the approval of the King. Only those members are eligible who have finished a course in the university and have acquired an exact knowledge of the part of the country they represent. They receive no salary but, in common with the president, are allowed traveling expenses and the *per diem* given to members of the permanent committee.

The two counselors are appointed by the executive council

but in order to avoid an objectionable selection, a report on the candidates for the office is obtained from every district. They must be graduates in law and have passed the examinations qualifying them to be judges. They are employed as salaried and permanent officials. The counselors are authorized to sign contracts for the landschaft and bank, to make entries in the register regarding the loans, mortgages and other conveyances, and to certify documents relative to payments and cancellations. They act only in an advisory capacity, however, unless the other members of the executive council are tied, when their vote decides.

The executive council meets weekly. Its duties are to enforce the laws, rules and regulations, to guard and defend the interests of the landschaft, to supervise the bank, the bureaus, and the administration of the funds and of the entire system at headquarters and in the districts, and especially to see that uniformity of business methods is observed in the districts. The district officials must submit their accounts to the executive council upon request and carry out the resolutions adopted by it.

All complaints against the district boards must be filed with the executive council, which makes its decisions upon reports submitted by the parties or by investigating committees. The executive council acts as a court of first instance in disciplinary proceedings against employees of the landschaft, as well as against all officials whose appointment is not made by approval of the King or the Minister of Agriculture. Appeals from its decisions go to the permanent committee but the decisions of the executive council are enforceable until set aside.

The executive council does not receive applications for loans or attend to the granting of credit. But all the debentures are made and issued by it in its own name and appraisals of properties are subject to its revision; hence it has the power to order a reduction in the amount of any loan consented to by a district, or to veto it entirely by refusing to issue debentures.

II. Each district has a board composed of a manager, the

superintendents of the circles within the district, and one attorney. Some districts have two managers.

The manager is elected by the members of the district, subject to the approval of the King. He must own a mortgaged estate in the district, be well-to-do, and be thoroughly familiar with farming and the rules and regulations of the landschaft relating to his district, and have served formerly as a superintendent. He has charge of the business of his district and must reside the greater part of the year at the place selected for its headquarters, which he must not leave without notifying the executive council. He calls the meetings of the district board and presides over them, but has no vote except in case of a tie. He has wide discretion in the exercise of his powers when the board is not in session.

The chief duty of the district manager is to administer the properties sequestered or foreclosed upon, but he cannot expend any money on them except to prevent imminent loss which it is not possible to avoid until the meeting of the district board. He supervises the operation of the branch bank and the administration of the funds of his district. He has a disciplinary power over subordinates but can remove an official only upon order of the executive council; he may suspend him, however, and send a report on the case forthwith to the executive council. He is required to keep in close touch with the circles, so as to prevent abuses and wrongs which might jeopardize the credit of the association.

Where there are two managers in a district they alternate every three years, so that only one exercises power at a time. The supernumerary is a member of the district board and may act as proxy of the first. In some districts the board appoints a proxy manager from the circle superintendents. The manager draws a salary and is allowed traveling expenses.

All circles have two superintendents and the larger have three or four. Superintendents must be familiar with the constitution and by-laws of the landschaft and thoroughly acquainted with conditions in their circles. A superintendent need not live within his circle. Sometimes even a man who

has no farm is selected, provided he inspires confidence and is a guardian of minors, or a son of parents, or the husband of a woman, owning an estate mortgaged to the association in the circle. A superintendent, however, must be a Gentile, and the land which he owns or controls be free of litigation. The only excuses for not serving in case of election are that he is in charge of some estate, or is a member of some committee or an officer intrusted with the handling of funds of the association, or has already served a term as superintendent.

Besides being a member of the district board, the superintendent must watch carefully all mortgaged properties and see that nothing happens to impair the credit and well-being of the landschaft. If, for example, a borrowing member cultivates his farm in a shiftless manner, lets his live stock run down or his buildings get out of repair, or contracts bad habits, it is the duty of the superintendent to report the facts to the district manager, who has full power to order an investigation and evict the delinquent.

The superintendents are usually the persons commissioned by the district board or executive council to do the field work relating to loans, such as appraising or reappraising estates, collecting debts, and administering properties taken over for the settlement of claims. The ranking superintendent convenes the meeting of his circle, and all official communications with members must be made through him. Superintendents are elected by their respective circles, and are given *per diems* and traveling expenses.

The attorney is selected by the superintendent of his district. He must be a graduate in law. His position is permanent and he draws a salary. He receives his instructions from the manager, to whom he gives legal advice whenever requested; he conducts lawsuits, draws contracts and other papers connected with the business of the landschaft in the district, and makes the entries regarding the loans in the district register. The attorney has also certain duties to perform in the branch bank and in supervising the district funds. He acts as lawyer, notary and clerk for the district manage-

ment and as secretary to the district board, but has no vote except in case of a tie.

The district board meets usually on January 1 and July 1 of each year, on call of the manager, and is attended by one superintendent from each circle in the district. Members are allowed to be present as spectators. Action is taken by a majority vote, the manager having no voice except in case of a tie.

The board has charge of the affairs and funds of the district. Within its area its powers are similar to those of the executive council over the whole landschaft. The chief duties of the board are to pass on applications for loans, appraise properties, execute loan contracts, receive payments from borrowers, and bring the necessary proceedings to enforce recoveries in the event of defaults. It has power also to grant extensions and to order the recall of loans.

III. There is a standing committee in each district to attend to pressing business which cannot be postponed until the next meeting of the board. It is composed of the district manager, an attorney, and two to four superintendents who are selected with their alternates for this purpose every six months at the district meeting. This committee is convened by the district manager whenever he sees fit, for the purpose of publishing resolutions of the district and circles, approving appraisals, granting credit when quick action is required, transferring debentures, examining leases of mortgaged properties or other conveyances, and advancing money to manage estates under forced administration.

IV. The final authority within the landschaft is the general assembly. This is not, as its name suggests, a meeting of all the members of the landschaft. It is composed of the executive council, district managers and attorneys, and two to four delegates from each district elected by the members thereof. It is presided over by a specially appointed royal commissioner or, in his absence, by the president. One of the counselors, or, if neither is able to attend, one of the district attorneys, acts as secretary and always takes the chair upon the auditing of the accounts. Meetings are held behind

closed doors; the public is excluded but members of the landschaft may attend as spectators.

The assembly has no stated time for meeting. It is convened only on extraordinary occasions, such as for the purpose of amending the constitution or by-laws, changing business methods or objects, borrowing money, or authorizing the use of the funds of the association for purposes other than those for which they have been created. But inasmuch as its authority is supreme, officials and individual members usually submit to the decision of the assembly various projects, questions, complaints and appeals.

The assembly is called by the executive council or by the permanent committee. When it decides to take this step, the executive council notifies the government and orders the members to elect delegates. As soon as the election is finished the executive council fixes the date for the meeting. No proposals can be submitted to the assembly except those which have been filed beforehand with the executive council. If the circles wish to bring a matter before the assembly, they must send it to the executive council through the district board. If the executive council is in doubt or disapproves, it must refer the matter back to the district board to have the circles vote upon whether it should be sent to the assembly. Also, if either the executive council or the permanent committee originate a project which it wishes to submit to the assembly, the same procedure must be followed to secure the opinion of the members.

All proposals which have been approved by the circles are referred to the permanent committee, which goes over them with the executive council to decide whether they should be finally submitted to the assembly. Voting in the assembly is by groups, and motions are carried by a majority of the votes. The delegates of each district under their manager form a group, and each of the nine groups has two to four votes, depending upon the size of the district. No resolutions except those relating to the internal management and organization of the landschaft are valid until approved by the king, and all resolutions must be published in the official news-

papers and duly promulgated to the district boards and circle meetings before going into effect.

V. The permanent committee is in a measure the standing representative of the general assembly. It was instituted to avoid the heavy expenses attendant upon holding the assembly and because of the difficulty of convening it at frequent or regular intervals on account of the cumbersome and lengthy procedure of the call.

The permanent committee is composed of the district managers, one delegate from each district elected by the resident members, and the executive council. The president of the landschaft, or in his absence the first vice-president, acts as chairman. One of the counselors is secretary, or, if he is unable to attend, the president appoints one of the district attorneys in his stead. The permanent committee convenes annually during March or April at a day fixed by the executive council. A second meeting may be called if business justifies it. The district managers can vote only upon the amendment of an old rule or the passage of a new one. The executive council also is restricted to voting on legislative matters, except in the case of motions upon which its advice is requested or by which its former decisions are put in question.

The permanent committee receives the annual report of the executive council. This report shows the loans granted and interest rates thereon, the debentures issued and redeemed, the total amount of the outstanding debentures with market quotations, the payments made by borrowers, the overdue claims and measures taken to enforce them, and the number of evictions and results thereof, besides the condition of the various funds, and the volume of business done with non-members. It also includes the financial statement of the bank.

The permanent committee examines and passes on the accounts of the executive council. At this examination the alternate of the president takes the chair, and a district attorney acts as secretary in place of a counselor. It also examines and passes on the accounts of the district boards, and from

the reports and estimates submitted prepares the budget for the coming year. It decides appeals from the decisions of the executive council, gives opinions in doubtful cases submitted by the executive council, and announces the results of all elections. Moreover, it determines whether proposals filed with the executive council shall be referred to the general assembly, and in the event of approval may call a meeting of the general assembly on its own motion

VI The larger a district the more circles it has, the aim being to make these fundamental administrative units small enough to assure careful attention to the mortgaged properties within their territories and to all the details of the management of the landschaft.

The circle meetings are held semi-annually in January and July, upon call of the ranking superintendent. Extra calls may be made by the executive council or district boards. Fourteen days' notice must be given, stating the object of the meeting, to which is appended, if the district manager so directs, an account of the business and financial condition of the landschaft and an outline of the minutes of the last meetings of the district board and permanent committee. The notice may be sent by registered mail if covered and sealed.

Members in good standing who are not in default on their loans may vote in all circles in which they own property mortgaged to the landschaft. The owner of four to seven farms located in the same circle may cast two votes, and the owner of eight or more farms, three votes and no more. At elections a member has but one vote no matter how many estates he may own. Voting may be by mail. Proxies are not allowed except for municipalities, public corporations, companies, the German Emperor, and princes of the Prussian royal house. Minors and women must be represented by proxies, since they are not permitted to vote in person.

The jurisdiction of the circle meetings extends only to matters of a purely local nature, questions regarding the use of the district funds or relating to the raising of money for the needs of the landschaft, the allowance of expenditures in

excess of estimates in the budgets, the increase of salaries, the creation of new positions, and the approval of proposals to be submitted to the general assembly. It has nothing to do with the admission or expulsion of members or with the granting or recalling of loans

The usual routine at a circle meeting is the reading of a report by the superintendent on events of interest to the landschaft and reports submitted by or through the district board; annually the circle receives and examines the budget and the accounts of the finances and business of the landschaft. When a ballot is taken for any purpose a majority prevails. If it be a question of borrowing money for the landschaft, the vote of a majority of the circles gives the decision of the district, and the vote of a majority of the districts gives the decision of the landschaft. At the election of a district manager the votes of the various circles in the district are combined, where there are three or more candidates the plurality decides. This is the case also when a vote is taken for the whole landschaft.

The circle meeting is the only place where members can participate in the management of the landschaft. They are allowed no part in the general assembly, executive council, in the boards or committees of the districts; hence they have not as much power as shareholders in an American corporation. But they possess the right, which can never be refused, to have their properties appraised and to be awarded debentures up to a certain proportion of their value in exchange for their mortgage contracts. In return for this, however, they must obey orders of superiors over some of whom they have no control, and stand ready to perform irksome duties for moderate compensation or none at all.

Members are bound to report all negligence or tortious acts of neighbors which injure their farms or credit; and in case of carelessness in this particular, or if they fail to discharge their duties in any respect, they are liable to warning and even arrest by the authorities of the landschaft and finally to expulsion. Should they resist or use violence to prevent the execution of orders, the courts will intervene in a sum-

mary way. But legal proceedings by a member against the landschaft are not allowed; he must abide by its decisions. Appeals from the decisions of the district boards go to the executive council, and then to the permanent committee

VII The bank of the Silesian landschaft was organized under a special act in 1848 as a joint-stock company with about \$1,000,000 of capital all supplied from the funds of the districts. The executive council of the landschaft is the supervising head of the bank, and appoints two of its three managers. The other manager is appointed by the permanent committee.

The officers of the bank are considered officers of the landschaft and so are public officials. They cannot be removed except for cause. They must obey the instructions of the executive council in all matters relating to the landschaft. In dealings with other parties they may follow their own judgment and wishes. The counselors of the landschaft act as attorneys for the bank. A royal commissioner is entitled to attend meetings of the executive council when it sits in committee on the bank; he has the right also to inspect its books and accounts. Reports must be rendered every three months, and oftener if required by the council. The annual report is submitted to the permanent committee, which causes it to be transmitted to the district boards.

The purpose of the landschaft in founding the bank was to benefit its members, to create a safe outlet for investing disposable funds, and to improve farm credit facilities in Silesia. The bank receives deposits, discounts and accepts bankable paper, makes loans to members and other persons, and accords credit on accounts current covered by collateral. The dividends received by the district associations are applied to the reduction of expenses.

The bureaus which the districts conduct for according credit to resident farmers who are not members of the landschaft were organized in 1849, a year before the last disabilities of the serfs were removed by the law. The landschaft distributed about \$175,600 among the districts as a working and guarantee fund for this business, and furthermore

agreed to assume full liability until this fund, increased by its earnings, should equal five per cent of the outstanding debentures of the bureaux. This ratio was reached in 1867, so these debentures, denominated "Litera D," are no longer a charge on the funds or members of the landschaft. Their security rests solely upon the mortgages of non-members, backed by special funds. The business of the bureau is kept separate and distinct from that of the members' association.

CHAPTER VII

THE SILESIAN LANDSCHAFT: ITS OPERATION

Methods of Bank and of Bureaus for Non-members—Obligations of Landschaft—Procedure in Obtaining a Loan—Forms of Debentures Received. Litera A and Litera C—Obligations of Borrowers—Benefits to Members—Rights of Borrowers—Liabilities in Case of Default.—Loans to Non-members.—Landschaft Bank.

THE bank and the district farm-mortgage bureaus for non-members are now organic parts of this great land-credit system of Silesia, but their business methods are quite different from those of the landschaft properly so called. The bank operates with its own resources and the bureaus operate against special funds, neither involves the members of the landschaft in any liability. Moreover, they are not required to accommodate any person whom they do not wish to serve. Their work is entirely voluntary and discretionary.

But as regards the true landschaft in the system, the obligations which it incurs are a direct charge against its members or funds, while every Silesian citizen who has a property of the kind designated by the orders and edicts mentioned above, has a right as a matter of law to have it appraised and himself to be admitted to membership in the association and to its benefits; and when once a member, he cannot be expelled nor will his loan be recalled so long as he obeys the rules and regulations. The credit which must be accorded to him may continue practically until he himself is willing or able to relinquish it.

A landowner who wishes to obtain a loan as a member must apply to the office of the landschaft in the district in which his property is situated. After the eligibility of the

property is determined by the board and approved by the permanent committee, the property is appraised. The net annual profit as estimated by the government for the land tax, multiplied by 25, less certain amounts, must be accepted for the value if satisfactory to the owner. If the owner thinks this value too low, the landschaft must proceed to a special appraisement at his expense. This is made by a committee appointed by the district manager, consisting of the district attorney, the superintendent of the owner's circle, and a superintendent of another circle.

The committee examines the receipts and expenditures of the owner for the preceding six years, tests the soil and subsoil, inspects the live stock and equipment, and ascertains the annual revenue of the farm. This is reckoned in bushels of rye for arable lands, the highest calculation being 48 bushels per acre. If the yield is less than 11 bushels, the land is rated as meadow and the value estimated in hundredweight of hay. If the yield is less than 24 hundredweight per acre, the land is considered good only for grazing, and the value is estimated by the actual hay gains. Garden plots are valued by their actual gains.

The revenue so determined is then multiplied by 25 and reduced six or ten per cent or even more if the live stock and equipment are insufficient. For each two to four acres there should be one head of kine, or two to four foals, or ten to 15 sheep, or 15 to 25 lambs. For each 37 or 40 acres there should be four horses or six oxen. The final estimate is compared with the price at which the land was bought, and if the buildings are adequate and in good repair, four-sixths, i. e., two-thirds, of the value of the property is taken as the maximum amount that the owner may have on loan. The rules for appraisals were made by the general assembly. The appraisers are personally responsible to the landschaft, but not to third parties, for errors and false returns. Every one of the numerous details of the rules must be followed carefully, so the work is slow and the estimates very conservative.

After the appraisal has been passed upon by two other circle superintendents and approved by the district board,

the mortgage contract is drawn up and submitted with all papers to the executive council and the deal is closed. But ordinarily no money changes hands. The credit extended is divided into two parts, one equaling three-sixths, the other equaling one-sixth, of the value of the estate. For the first

DEBENTURE BOND LITERA A.

Series.....	No.....Marks
<p>THE SILESIA LANDSCHAFT'S PRIVILEGED DEBENTURE BOND LITERA A. of.....Marks German gold coin and three and one-half per cent interest per year</p> <p>Issued in accordance with the regula- tion of January 22, 1872.</p> <p>Based on a mortgage of equal amount and on the general guarantee of all the members.</p> <p>Redeemable and payable by the Land- schaft, but not subject to the call of the bearer.</p> <p>Breslau, the day of 19 .</p> <p>[Seal] <i>Silesian General Landschaft Directorate</i> Registered in the debenture bond reg- ister, volume... page....</p> <p>Certified byCounselorPresident.</p>		<p>With the de- benture bond in- terest coupons have been issued for the current period and a re- newal coupon for the following pe- riod.</p> <p>Interest and renewal coupons are renewed peri- odically after the last renewal cou- pon has been re- turned by the bearer. (I, 6, of regulation of Jan. 22, 1872.)</p>

part the borrower receives debentures denominated "Litera A." These are direct obligations of the central administration and also a direct charge against a mass of mortgages on properties always double the value of the debentures by reason of this arrangement; hence Lit. A debentures are quoted highest of all. For the second part he receives debentures denominated "Litera C." These are direct obligations of the

district and their lien is subordinate to that of the others; hence their quotations are lower and they are taken only when the borrower wishes to utilize his credit to its full extent and encumber his land to two-thirds its value.

Both kinds of debentures, however, are executed by the

DEBENTURE BOND LITERA C.

Series.....	No.....Marks
THE SILESIAN LANDSCHAFT'S PRIVILEGED DEBENTURE BOND LITERA C. of Marks German gold coin and three and one-half per cent interest per year.		[Same as in Litera A.]
Issued in accordance with the regula- tion of November 22, 1858; October 6, 1868, and October 30, 1872 Based on a reserve fund, a mortgage of equal amount and the Special Funds of the Landschaft. Redeemable and payable by the Landschaft, but not subject to the call of the bearer.		
Breslau, the day of 19 .		
[Seal]		
<i>Silesian General Landschaft Directorate</i>		
Registered in the debenture bond reg- ister, volume....page....		
Certified by CounselorPresident.		

executive council and are legal claims against the entire land-
schaft. They alike bear four, three and one-half, or three
per cent interest. Five per cent debentures are allowed but it
has not been necessary to issue any of them since 1872. The
borrower chooses whichever rate he pleases, his choice of
course depending upon the condition of the money market.

The rate chosen must exactly correspond with the rate of his loan. He sells the debentures at the bank of the landschaft or wherever he can get the best price, and thus obtains the money for which he has mortgaged his land. If he be unable to dispose of his debentures at par, the manager of the district may grant him a cash loan at four per cent equal to the difference between the market quotation and the face value, but this sum must never exceed six per cent of the face value. On the other hand, the landschaft always gives cash for the full amount of the loan whenever the debentures are quoted above par at the time the mortgage is taken. These are the only instances when loans are realized in money.

In return for these debentures the borrower obligates himself to pay their interest and one-half of one per cent of their principal a year for their amortization, and an additional one-sixth of one per cent to cover the cost of business. If he utilizes his entire credit, he becomes obligated to pay one-twelfth of one per cent more to cover the cost of business and one-fourth of one per cent to the district for 16 years as a reserve for Litera C debentures. These contributions are combined with the interest to form an annuity payable in semi-annual instalments. He furthermore agrees to pay the principal in lump on six months' notice, pay four per cent interest on arrears, and abide by the constitution and rules of the association. The borrower pays the stamp tax and registration fees, whereupon his contract and mortgage are duly filed in the public registration office and transcripts thereof at headquarters and in the district. Only first mortgages on land entirely free of other encumbrance are taken.

The borrower's contract does not specify or fix the period during which the annuity shall be paid. It requires him to pay the full annuity as long as he remains a member of the association, consequently the amount of his interest and dues continue the same each year until his loan has been entirely extinguished. At present the borrower does not pay any contribution to the cost of business on Litera A debentures, while on Litera C debentures the contribution is fixed at one-tenth of one per cent and it is collected in only five of the

districts. The one-fourth of one per cent on Litera C debentures also has been discontinued. The reason is that the regular income of the landschaft is sufficient to meet current expenses and the funds of the districts have reached the maximum required by law, but the payment to cover the cost of business is automatically restored if expenditures run over receipts, while the additional payment on Litera C debentures may be restored at any time by resolution of the permanent committee. Borrowers now pay only one-half of the costs of special appraisals.

Every profit or saving inures to the members. They enjoy the lowest interest rates because the landschaft, being composed of the members themselves, has no object in making gain out of them. In all probability they will never be pressed for the repayment of the principal, since only a national calamity would oblige the landschaft to exercise the right it has reserved for calling in the loans. There are other advantages not obtainable from ordinary lenders. If a borrower cannot pay his annuity the district manager will give him a respite until the next meeting of the district board, upon a written request sent 14 days before the time set for payment, if the cause of the trouble is certified to by the superintendent of the circle. The board may extend the time for six months, while the permanent committee has the power to enact stay laws for a district or the entire landschaft in the event of an overwhelming necessity. But such favors are possible of course only when the landschaft has funds on hand sufficient to meet the interest on outstanding debentures.

Although the landschaft may never recall or alter the credit it extends, the borrower has the right to have his interest reduced if he can get a better rate, and also to make advance payments on the principal in whole or in part, using either cash or debentures for this purpose. The reduction of the interest is effected by redeeming outstanding debentures at the member's request and issuing to him in their stead new ones of a lower rate. But the transaction is made at the member's expense and he must put up a three per cent margin in cash or debentures to secure the landschaft against

any loss if he should fail to complete the deal. The reduction of the principal is accomplished in the same way. The borrower buys debentures in the market and turns them in to the association as so much cash; or else he pays cash and the landschaft buys the necessary debentures for him, or calls in the required amount for redemption. Three months' notice of cash payments and seven months' notice of payments by debentures must be given in order that the association may have time to purchase them or to take the regular steps for their redemption.

The borrower has also certain rights in the amortization fund, created by the instalments paid by borrowers on their debenture loans. When his payments into this fund for *Litera A* debentures equal one-tenth of his debt, he may have his mortgage cancelled to that extent, or he may take out a new loan for the amount, or use it as a current account at the landschaft bank. The manager of the district decides whether this privilege shall be granted. Moreover, to save the member from the temptation of spending it, the district manager, at his request, will make a note on the registers that the amount is barred from further use by the borrower until his entire loan has been paid. The borrower's share in this fund can never be attached by third parties. He cannot touch it himself until it reaches the proportion mentioned, and so long as it remains in the landschaft it belongs to the farm and passes with it to any new owner.

If the member defaults his annuity or does or fails to do any act in violation of his contract to the injury or jeopardy of his credit, and no extension or remission has been granted, his mortgaged estate becomes immediately subject to the control of the landschaft. The landschaft, without order of court or formality of law, may seize and sell at auction the farm products on hand, the live stock or any of the personal property, or sequester the estate in whole or in part and lease or operate it in its own behalf. This may be done also if the security becomes impaired even through no fault of the member. But leniency is always shown to the delinquent and every effort is made to restore him to possession as soon as arrears

are collected. In the meantime a portion of the property is usually left him to live on.

The manager of the district has powers as judge and sheriff in such a proceeding. He must see that the lessee agrees to abide by the rules of the landschaft if the estate is leased. If he decides to operate the estate, he designates some circle superintendent as trustee or receiver. The superintendent appoints some borrowing member who owns a mortgaged farm in the neighborhood as overseer. Acceptance of this appointment is obligatory. Should the person appointed refuse to serve without being excused by the board of the district, he is liable for any loss that may have occurred. His duties are to supervise the sequestered farm, attend to the receipts and expenditures, and render a report to the board once a year or oftener. He may or may not be paid. The circle superintendent also hires a trustworthy farmer of experience to do the agricultural work under the supervision of the overseer, who submits monthly reports to him. A member may be compelled to work the land.

If the arrears of the delinquent member cannot be recovered by means of this sequestration, the landschaft may apply to the courts to have the mortgaged estate sold. This is not a foreclosure suit. It is a swift and summary proceeding, but notice of bringing it must be duly published. The landschaft does not have to offer any evidence except its registers and records. The entries therein, showing the title of the property, the execution of the mortgage and the debt of the owner, must be accepted by the court as proof. The court's sole province is to determine the authenticity of these documents, and if they are found to be genuine, it must render judgment against the defendant and order the sale demanded by the landschaft. A third party cannot intervene in the proceeding. If he feels aggrieved his only recourse is a direct suit against the landschaft for damages.

The sale is made at auction by the public administrator. The landschaft remains in charge until the new owner takes possession. It may bid in the property to protect its claim and hold it for one year without paying the transfer tax pre-

scribed by the general law. If it cannot resell within that time, it may pay one-twelfth of the tax in the second year and the balance in the third year. But it cannot hold permanently any real estate of a value exceeding \$1,200 without the consent of the Minister of Agriculture.

No member of the association who has had any duty connected with the case can acquire the estate by purchase until three years after the sale. If the proceeds are more than enough to satisfy the judgment, the surplus is turned over to the defendant. If they are insufficient, the landschaft may appropriate his share in the amortization fund to make up the deficiency. Any balance in this fund is then given to the new owner of the property. The membership of the debtor ceases with these proceedings and his credit is abrogated.

Non-members who are accorded the credit facilities of the district bureaus must give their consent in writing to the use of these special summary proceedings against them, and must agree also to obey instructions issued by the officials of the landschaft. Appraisals of the property of a non-member are made by the same rules in force for members. Two-thirds of its value is the maximum credit allowed. Each district has two or more permanently employed and salaried appraisers elected by a committee composed of the manager, attorney of the district and a superintendent from each circle. These appraisers need not be members. The committee conducts the business of the bureau.

The loans to non-members are all made in debentures. These Litera D debentures now bear 3 5 per cent interest. The executive council has authority, however, to issue them at three, four, four and one-half, and five per cent, but an order must be obtained from the permanent committee for the five per cents. Sums which may be evenly divided by \$24 may be paid on the loan in advance. Debentures of the landschaft may be used for this purpose.

All loans to non-members are recallable on six months' notice, and are repayable by annuities of four and one-tenth of one per cent, in semi-annual instalments. Of this amount, 3.5 per cent pays the interest on the debentures, one-tenth goes

to cover the cost of business, and one-half of one per cent is placed in the amortization fund. The borrower has rights in this fund similar to those of members, when his share equals one-fourth of the principal of his debt. No extensions of over six months are allowed.

The landschaft bank does not make loans on real estate. Its chief object is to serve as the depository of the funds of the landschaft, act as its financial agent, and facilitate the circulation of its debentures. It makes loans to holders of these debentures up to 85 per cent of their face value, and also accords credit to borrowers from the landschaft against their free balances in the amortization fund. Farmers may obtain loans from the bank up to two-thirds the value of pledged agricultural products of a not easily perishable nature. The bank has not been given any privileges in the way of special proceedings for recovering its claims. It transacts its business as an ordinary banking company under the general laws.

CHAPTER VIII

THE SILESIAN LANDSCHAFT· ITS FUNDS AND DEBENTURES

Investment of Interest—General Fund—Amortization Fund—Guaranty Fund.—Bank Fund—Accounts—Reports—Denominations of Debentures—Debentures Only in Exchange for Mortgage Contracts—Rights of Debenture Holders—Redemption of Debentures on Repayment of Loan—Debentures as Investments—Latera B Debentures.—Condition of Silesian Landschaft in 1912

DATES of payment are so fixed that mortgagors pay interest on their loans six months before it is turned over to holders of the debentures. This is done to give ample time to enforce collection in the event of default. The interest is deposited at interest in the landschaft bank as received and drawn out as needed. All other moneys are invested in the landschaft's own debentures. No other form of investment is allowed. Speculation is prohibited and no real or personal property may be owned by the landschaft beyond what is necessary to its existence. Since its funds are thus kept in its own debentures and loans are made in the same way, the operations of the landschaft are represented by its own paper and very little cash is required for carrying on its business. The annuities of borrowers are split up into their component parts and distributed among the various funds to which they belong. Other payments of borrowers and all receipts and disbursements of the landschaft are similarly disposed of, so the money goes out by retiring debentures, or making new loans shortly after it is paid back by the borrowers, and is continually in motion.

The portion of the annuities which is assessed for the cost of business is placed in the general funds of the districts.

The maximum assessment of one-sixth of one per cent must be maintained until the income from this source suffices to pay seven-twelfths of the district expenses. After that point is reached, it may be reduced, provided \$200 is always left in the general funds for every \$1,000,000 of debentures in circulation. The same rule applies for the maximum of one-twelfth of one per cent for Litera C debentures.

The central management and each district has a general fund. That of the central management was started with the grants of Frederick the Great. Two per cent of the revenue of these old grants is devoted to pensions for officers and their families. The rest goes into the general fund, as do also unclaimed debentures and coupons, various fees, such as charges for registering debentures and appraising properties of third parties whose applications for membership have been rejected, incidental gains, the earnings of these accumulations, and lastly sums borrowed from the outside in case of necessity. Out of the general fund of the central management are paid such expenses as losses on defaulted mortgages, expenditures on sequestered estates which secure Litera A debentures, allowances and salaries of the officers and employees of the general staff, the cost of the upkeep of its buildings, and the purchase of supplies.

The expenses paid from the general funds of the districts are such as are connected with their particular parts of the business of the landschaft. The district general funds are maintained by the one-sixth of one per cent commission on Litera A debentures, the extra one-twelfth of one per cent charged members who receive Litera C debentures, dividends from the landschaft bank, various gains, and whatever appropriations may be made by the executive council or permanent committee. The minimum for the size of these funds is the same as that of the central fund, \$200 for each \$1,000,000 of debentures in circulation. This has been reached in four districts, hence only five districts continue the extra assessment for Litera C debentures.

The portion of the annuities which are paid by members for the reduction of principal are placed in their correspond-

ing amortization funds for Literæ A, C and D debentures. The first source of these funds is the obligatory one-half of one per cent paid by all borrowers; they include also voluntary payments and all profits and unneeded surpluses of other funds. For Literæ C debentures is added the one-fourth of one per cent paid for 16 years by mortgagors who borrow up to the limit of credit.

For Literæ D debentures a special guaranty fund, as well as a special amortization fund, has been created. In general the annuities of non-members go into the latter, but one district retains one-tenth of the annuity to compensate itself for its trouble and expense; in all other districts the one-tenth goes into the guaranty fund. This guaranty fund was started in 1849 by \$171,600 set aside for that purpose by the central management and distributed among the districts. The profits of the business in all except the one district mentioned have been added to it for many years. These two funds must be invested in debentures of the landschaft; for this purpose all three classes of debentures are eligible.

The payments for the outstanding debentures issued in the original form for the earliest loans are turned into the funds of the central management.

The operations of the landschaft bank are secured by its capital stock and a reserve to which 15 per cent of the earnings is added each year.

A separate account in the amortization funds is kept for every borrower and to it are credited all payments he makes and his share of the profits. It is debited with withdrawals, defaults and expenses which he has caused the landschaft, together with his share of the losses sustained by the landschaft. This account is balanced every six months. Although it runs with the land and does not belong to the borrower personally, the landschaft bank will grant him a loan against it if he is in good standing, while the district manager will allow him the privilege of using it in the ways already indicated.

The cancellation of the borrower's mortgage is made as a matter of course when his credit account in the amortization fund equals his debt. But if a member should request

that his balance be left in the treasury, the landschaft will accord him credit anew without examining his qualifications for membership or reappraising his property. This privilege is limited to one year. The landschaft is able to do this without risk because it keeps itself fully informed of any deterioration of the properties or change in the condition of members. Since the amortizing contributions of members must all be invested in debentures of the same series and interest rates as members received for their mortgages, compound interest runs in their favor to hasten the extinction of the loans

Brief statements regarding all funds must be forwarded by the executive council and the district boards to the circles for their information at their January meetings. Complete reports, together with estimates of expenses for the coming year, must be rendered to the permanent committee in time for the committee with the executive council to prepare the annual budget therefrom to be sent by April 1 to the circles for approval. The largest sum which may be expended in excess of the budget is \$108 for a district board and \$216 for the executive council. Payments of borrowers for the different funds may be received by the landschaft bank or at headquarters, but as a rule they are made at the offices of the districts, and the districts place the portion belonging to the central management to its account at the landschaft bank every six months.

The King of Prussia has the power to order the landschaft to allow members to withdraw their entire balances in the amortization funds. This power was exercised during the financial disturbances in 1848, 1855, and 1904. In the wars of 1812-14 Napoleon confiscated all funds for military purposes and so upset the calculations made for the extinguishment of the loans. The state can divert any of the funds from their regular use but no creditor of a member may touch them.

Debentures are payable by the landschaft, but are drawn without any fixed period of maturity. They particularly state that they are not subject to recall by the holder,

but are redeemable only at the will of the landschaft. They are made in series and indicate on their face the funds and classes of securities back of them. The denominations of Literæ A and C debentures run from \$24 up to \$720; of Litera D debentures from \$24 up to \$1,200, and are drawn payable to bearer or in the name of the holders as the borrower prefers. Coupons are attached for ten years' interest and a "talon" or certificate entitling the holder to another set of coupons and a talon.

The landschaft does not keep any debentures on hand for sale to the public. They are disposed of only in exchange for mortgage contracts. The effect of this exchange is that a borrower divides his loan into a number of convenient parts which may be easily sold anywhere in Germany, because the Silesian landschaft has a national reputation and the holders of the debentures know that the provincial government connected with it will protect their rights.

The holder of a debenture is entitled to the payment of interest at various designated places in the Empire, and also to the payment of the principal when the debenture is called for redemption. If the landschaft should default, the holder of a Litera A debenture may bring suit and ask the courts for a recovery out of the mortgages acquired at the issue of its series, and then out of the collective liability of the members. But neither of the other classes of debentures is a charge against this liability of the members. The holder of a Litera C debenture may ask for a recovery out of its amortization fund, then out of the mortgage of its series, and finally out of the general fund of the district in which these mortgages were taken. The holder of a Litera D debenture may ask for recovery out of its amortization fund, then out of the special guaranty fund, and then out of the mortgages of the non-member borrowers of the issuing bureau.

Every settlement of a loan by voluntary payment of the borrower or by legal proceedings requires the redemption of a corresponding amount of debentures of the kind in which the loan was made. The face value of the debentures in circulation must never exceed the unpaid principal of the out-

standing loans. The landschaft is compelled each year to make a report to the government on its loan and debenture operations, and a royal commissioner appointed to supervise the landschaft sees that they properly balance one another.

The landschaft obtains the debentures it wishes to redeem either by purchase at the bourse or by calling them in by drawing lots. The call must be announced in the official newspapers of Berlin and Breslau and notices of it must be posted in the bourses of those cities and at all offices of the landschaft and its bank. The debentures to be withdrawn must be specified by serial numbers and interest rates. Purchased debentures need not be listed in the call.

When the debentures are thus recalled they are considered as matured and the interest stops running. The landschaft sets aside a sufficient sum to redeem the recalled debentures and holds it at two per cent interest or invests it in other debentures for the owners. Coupons not presented within four years and debentures not redeemed within 30 years become null and void and are forfeited to the general fund of the central management. Provision is made for issuing duplicates for debentures which have been damaged or proved to have been lost or destroyed. Both coupons and debentures payable to bearer may be registered in the name of the owner without any charge. Debentures may be deposited with the landschaft for safekeeping and exchanged for a registered receipt for a small fee. Redeemed debentures can never be restored to circulation. They are cut with scissors, marked with a cancellation stamp, and burned after three years. The debentures of all classes of the Silesian landschaft are lawful investments for funds of savings banks, insurance companies, public corporations, trustees, executors and guardians.

There appears to be a class lacking among the kinds of debentures described. The omission is only apparent. No debentures were ever issued which might have been denominated "Litera B." The absence of this letter explains an historic incident which discloses the defects of the Silesian land-credit system as first devised. In the early part of the last century

complaints were made that the low valuations fixed by the management of the landschaft on lands, the limitation of loans to one-half of these valuations, slow and technical business methods, and the want of regular amortization, interfered with the extending of reasonable amounts of credit to members and discouraged landowners from joining the association, while the privilege which the landschaft had of taking possession of mortgaged properties and leasing or farming them until its claims were satisfied, prevented owners from getting loans on second mortgage from other lenders.

On account of these defects of the old landschaft a new association was formed on June 8, 1835, under the name of the Royal Credit Institute for Silesia. Its heads were appointed by the King, while the officers of the landschaft could be called upon to manage the properties mortgaged to it if sequestered for arrears. The Institute was authorized to issue debentures styled "Litera B," even beyond two-thirds the value of the land, and also to take in security properties already mortgaged to the landschaft. This new concern was dissolved on March 4, 1850, owing to the fact that the old landschaft had gradually made the needed reforms and absorbed the business of its rival. But inasmuch as debentures Litera B were in circulation in the province the Silesian landschaft decided not to adopt this name for any subsequent issues.

In 1912 the amount of the loans made by the Silesian landschaft to members during the year was \$850,162, and the total amount of loans outstanding was \$97,919,605, secured by 1,888 mortgaged estates. This was cover for debentures as follows:

Old landschaft	}	5	3 per cent
debentures \$6,153,307			debentures \$33,891,869
Litera A			3 5 per cent
debentures 72,517,214	}	4	debentures 54,930,371
Litera C			4 per cent
debentures 19,249,084	}	5	debentures 9,097,365

The general funds amounted to \$3,932,763.25, and all except \$808,740.63 of cash and accounts received were invested in debentures.

The amount paid into the amortization funds was 18.58 per cent of the debt for the old landschaft debentures and 7.87 per cent for Litera A debentures. For Litera C debentures the amount was 9.37 per cent plus 17.06 per cent into the special reserve.

During 1911 seven estates were sequestered. One of them was released and two were sold. In 1912 \$39,413.39 of principal and \$19,832.73 of interest were in arrears in the remaining four cases. In addition, 19 estates were \$12,396.99 in arrears on interest payments.

The amount of the loans made to non-members during the year was \$875,881, and the total amount of loans outstanding was \$52,409,274, secured by 15,996 mortgaged properties. This was cover for debentures Litera D as follows

3 per cent debentures.	\$9,576,560
3.5 per cent debentures.	34,098,500
4 per cent debentures.	8,734,214

Mortgages to the number of 1,372 were in force on properties whose areas were 12.35 acres or under. Many of the mortgaged properties were 50 acres or over. The smallest loan was \$23.81, and the largest \$59,525, so it is impossible to give an average for size.

The amount paid into the amortization fund for debentures Litera D was 6.76 per cent, and into the reserve fund 2.28 per cent of the debt of members.

During 1911 eight mortgaged properties of non-members were sequestered. Two of them were released and four were sold. In 1912 \$208.90 interest was in arrears in the remaining two cases. In addition, 343 other mortgages were \$17,137.85 in arrears in interest payments; presumably this was for six months.

Hence, the total of the outstanding debentures issued against mortgages on lands of members and non-members

amounted to \$150,328,879. The quotations of the debentures varied as follows:

Old landschaft 3.5 per cent debentures.	91.80	to	94 00
Old landschaft 4 per cent debentures.....	100.00	"	101 00
Literæ A, C, and D 3 per cent debentures....	81.20	"	84 20
Literæ A, C, and D 3.5 per cent debentures..	90.60	"	93.50
Literæ A, C, and D 4 per cent debentures....	99.65	"	100.85

Debentures may be purchased by investors at the main office or through branches of the landschaft or its bank—a fact which makes it appear as if they were sold directly by the landschaft itself. Such, however, is not the case. In selling the debentures the landschaft acts merely as the agent of the individual borrowers for whose loans they were issued. This service is gratuitous and maintained for the convenience of the members.

CHAPTER IX

THE OTHER GERMAN LANDSCHAFTS

Old Type of Landschafts in Prussia—State Aid—Variations in Different Provinces—Management, Members and Officers.—Credit and Debentures—Changes After Napoleonic Wars—Privilege of Recalling the Loan—Reduction of Interest.—The “Conversion” —Creation of a Sinking Fund—Posen’s Provincial Credit Association—The New Debentures—Amortization of Loans by Annuities—Extension of Landschaft to Common People.—Reduction of Minimum for Credit—Variations Among New Landschafts—Central Landschaft

LANDSCHAFTS of the old type were formed in Prussia, after the origination of the idea in Silesia, in Kür and Neumark on June 14, 1774; in Pomerania on March 13, 1781; in West Prussia on April 19, 1787; in East Prussia on February 16, 1788; and at Cella in Luneburg on February 16, 1790.

All these old landschafts were organized under the auspices of the state and some were generously subsidized by it. This state intervention was almost a necessity. The title and value of land were unsettled by the ever present fear of war and political disturbances. Hand labor was hard to get. The methods of cultivation were crude and feebly productive. Continual defaults, stay laws, and the delays or impossibility of foreclosure frightened away capital from agriculture, and farms were being abandoned because of lack of funds. Although prices of food stuffs were inordinately high, revenues were small and intermittent, and the owners of farms were unable to pay regularly their taxes and war levies.

The trouble and the remedy appeared to be financial; so the rest of the afflicted Prussian provinces, inspired by the successful example of Silesia, decided upon the creation of public intermediaries between borrowers and lenders to de-

termine questions relating to titles and values, to issue bonds to be used by investors instead of direct mortgage loans, and finally to remove all doubts about recovery by providing for the guaranty of groups of owners of valuable estates, enforceable by special summary proceedings, in place of foreclosure under general laws.

The old *landschafts* are not all exactly alike. No province but Silesia forced members to join or imposed perpetual liability on their estates; nevertheless all estates eligible for admission are liable on the debentures of the *Litera A* class issued by the *landschafts* of Silesia, Pomerania, West Prussia and East Prussia. In East Prussia the crown lands and forests are subject to the liability. In the other provinces the liability runs only against the estates actually mortgaged. This liability is limited to contributory payments amounting to from 5 to 10 per cent of the indebtedness incurred by the *landschafts* of Westphalia and Saxony and by one *landschaft* in Schleswig-Holstein. The two cooperative associations in Saxony and Bavaria which extend real estate credit according to the *landschaft* method fix the liability at \$250 per share, the number of shares which each borrower is required to subscribe for being determined by the amount of his loan.

There were differences also in structure. The *landschaft* in Silesia was composed of nine, that in Pomerania of four, separate associations, each with its own constitution and funds. In West Prussia the *landschaft* had four departments with separate directorates, and in Kur and Neumark it was divided into four departments for convenience of administration. All these departments were subdivided into circles. In East Prussia the *landschaft* was divided for the same purpose into three departments without any circles, and in Luneburg it had only one office. The structure of all these old *landschafts* still remains unchanged, except that East Prussia has consolidated her three departments into one.

The scheme of management was about the same for all the old *landschafts*. The members, although mutually liable, had no voice in admitting members, in granting loans, or in

any of the business. Their participation in the affairs of the association was confined to voting for officers and delegates or on measures relating to changes in the constitution, raising money for general purposes, or diverting funds from their prescribed uses. The ballots of members were taken at the meetings of the lowest subdivisions. Over these were the regional boards and officers, or, if the landschaft was not decentralized, the executive council and central staff. Then came a select or permanent committee which represented the general assembly when the latter was not in session.

Members were not allowed to sit in the general assembly. This body, which held the supreme control within the landschaft, was composed of delegates and officers, presided over by a representative of the Crown. The election of officers and amendments to the constitution and by-laws had to be approved by the Crown. Supervision was exercised by a royal commissioner. The landschaft could make no loans outside of its designated territory, nor on any lands except the estates of nobles.

The officers in every old landschaft had powers as public officials in the performance of their respective duties. Hence their adjudications as to titles and values and the documents and records made by them were incontestable proof in litigation between the landschaft and its members. Third parties could not dispute the claims or liens of the landschaft or interfere with or delay its proceedings to enforce recovery. Members of the landschaft were bound under penalty to comply with all orders and do any service enjoined upon them in respect to its business.

The credit limit, as a rule, was fixed at one-half the appraised value of the estate. Members in the Silesian landschaft had a right in law to demand debentures up to that amount in exchange for their mortgages. With the other landschafts the granting of membership and credit was optional, but when once accorded, the credit was intended to continue until the borrower wished or was able to end it. No provision was made for the amortization of the loans. The funds obtained from state subsidies or assessments on mem-

bers were not used for reducing the loans or the interest rate. They were held with their earnings as reserves to meet current expenses or to protect the landschaft or assist members in emergencies

Every debenture contained a description of the property by which it was primarily secured, and the holder had to exhaust his remedies under the general laws against the mortgagor before calling upon the landschaft for payment. Hence the effect of the landschaft's signature to the bond was simply to give it an easy negotiability. To facilitate circulation coupons payable to bearer were issued in denominations from \$350 down to \$3 50. They were all redeemable at the will of the landschaft, and for a long time also on six months' notice of the holder, a defect which subsequently jeopardized the entire system

Twenty-eight years elapsed after the establishment of these first Prussian landschafts before a new association was successfully launched; one formed for Schleswig-Holstein in 1811 was dissolved. Within that period Napoleon Bonaparte rose, reigned and fell. Europe had been politically and socially remolded, and the serfs in the German states had begun to emerge from bondage with rights and needs which the old landschafts were not framed to recognize

The restriction of membership to the owners of large estates and the employment of business methods which were antiquated even at the opening of the century prevented these institutions from meeting the requirements of the changing conditions. Other defects were the lack of any provision requiring the repayment of the principal of the loan, the privilege conceded to holders of recalling the debentures, and the peculiar legal status which saved the landschafts from being primarily responsible for obligations made and issued by themselves.

The privilege of recalling the loan, however, was usually reserved by all classes of lenders in those days. Frederick the Great and his advisers did not disturb this custom for fear of driving the investing public away from the debentures of the landschafts, and for the further reason that they

thought that the subsidies and the unexpended portion of the contributions which members paid for the upkeep of the landschaft would eventually form a sufficient fund to meet the usual number of demands and protect its guaranty. But such was not the case. The demands were heavy whenever the financial situation of the country at large was bad, and the stay laws which Frederick the Great's successor, Frederick William III, decreed for private debtors during and after the Napoleonic wars, had to be extended to the landschafts. Between 1813 and 1814 a certain period of grace was granted for all the associations. For the province of Pomerania it lasted until 1820. In East Prussia and West Prussia, which had been scourged the most by war, the stay laws were re-enacted in 1821, and holders of debentures were enjoined against calling in their loans until December 21, 1823. Further moratoria were decreed and the affairs of the old associations and of the four new ones which had been formed did not resume their regular course until September 13, 1832.

During this time debentures were redeemed only in amounts justified by the available cash on hand. The contributions of members of the landschafts were increased, but many debenture holders had to wait because the enemies had confiscated the entire funds of some of the associations. These stay laws saved the landschafts from the only necessity they ever faced of putting the collective liability of members to the test. It cannot be conjectured what might have happened if these measures had not been taken.

It must be remembered, however, that at intervals during this period the state itself was forced to suspend payments and that its credit was always worse than that of the landschafts. During the Napoleonic wars the debentures of the Silesian landschaft fell to 84, then to 70 and 50, but those of the Prussian Government sank to 20. In 1839 they again dropped below par when the interest rate was arbitrarily reduced by royal decree from four to three and one-half per cent, but they soon recovered. The revolution of February, 1848, seriously affected all values, and during that year the debentures of the landschafts of Silesia and Pomerania were

quoted at 93, of West Prussia at 83, and of East Prussia at 96. But at the same time Prussian government bonds were selling at 69, the stock of the Bank of Prussia at 63, and the stock of the government railroads from 90 down to 30. Again, in 1850, while the 3 5 per cent government bonds of Prussia were at 86 5, those of the Silesian landschaft were quoted at 90 to 93 75, those of the landschaft of Posen at 102, and of the landschaft of Mechlenburg at 103

But the bitter experiences suffered by the landschafts during the Napoleonic wars and other disturbances showed the dangerous possibilities of the error of allowing holders of debentures the right of demanding repayment of the principal. Its elimination, however, was accomplished gradually. After the country had recovered from the damage wrought by the wars and had enjoyed a few years of peace and plenty, land values steadied again and money began to be found in abundance for mortgage loans on reasonable terms. The landschafts were the first to enjoy the effects of the improved condition and they decided to take advantage of it for the purpose of reducing the rate of interest on their debentures.

This rate was four per cent, the same prescribed by law in the latter part of the preceding century, and the debentures were consequently selling at a premium corresponding with the lower market rates for money, which were between 3 and 4 per cent for good investments. Edicts permitting a reduction of interest were published for East Prussia and Pomerania in 1837, for West Prussia in 1838, and for Silesia in 1839. These edicts further declared that debentures which could be recalled by holders should no longer be issued. The correction of this defect, which had jeopardized their existence from the beginning, was the first innovation made in the old landschafts.

The constitutions and by-laws were generally overhauled a few years afterward, and so great was the effect of the various amendments that the literature of the landschafts refers to those times as the epoch of the "conversion." All outstanding debentures were called in. The holders were compelled to accept their repayment at par, or their conver-

sion to $3\frac{1}{2}$ per cent interest after 1840 for denominations of \$24 or over, and to $3\frac{1}{3}$ per cent interest for lower denominations.

As the debentures were then quoted at a premium of about seven per cent, many complaints were raised against the execution of this drastic measure, but the conversion was made with comparatively little trouble. The Silesian landschaft did not have to use a loan which it had taken the precaution to obtain from the Berlin bankers. Out of \$9,000,000 of its debentures in circulation, only \$6,240 were presented for payment, and \$120,000 were converted as a matter of course upon the failure of the holders to make known their wishes. After the reduction of the interest the debentures were soon quoted again above par, and this was the case with the other landschafts also.

Inasmuch as the measures for converting the debentures from four per cent to a lower rate did not provide at the same time for a corresponding reduction in the interest paid by the members on their loans, it was apparent that unless something were done big funds would accumulate for which the landschafts would have no use, since the associations were not conducted for profit. The first proposal was to reduce the interest on loans but the idea of utilizing the difference to create a sinking fund for the retirement of the debentures finally prevailed.

The suggesting cause of this idea was undoubtedly the Provincial Credit Association for the Grand Duchy of Posen, Prussia. This peculiar institution was organized on October 15, 1821, with the object of issuing just one series of debentures for a group of noble landowners, and it proposed to go out of existence when this bonded debt was paid off. Borrowers contributed three-fourths of one per cent in addition to their annual interest and fees, and it was calculated that the funds accumulated thereby would suffice to retire the debentures within 41 years.

This association had avoided the error of conceding to debenture holders the privilege of recalling the principal on notice. It reserved this right to itself and exercised it by

withdrawing by lot each year as many debentures as it was able to repay from payments received from borrowing members. Drawings were made, however, only when the debentures were quoted at a premium. It is needless to say that when the price was under par, the association bought debentures in the open market. A bonus of three per cent was given on all debentures drawn by lot. The purpose of the founders in creating a sinking fund by contributions of members seems to have been not so much to wipe out the debt as to maintain the face value of the debentures by being able always to buy them back, and also to compensate borrowers whenever they happened to be compelled to repay their loans with debentures quoted above par.

The Posen association issued another series of debentures in 1840 to be redeemed by a 1.5 per cent annual contribution for 35 years. Thereafter it closed its doors against further applications for loans, and was dissolved in 1877 after having faithfully met all its obligations, exactly as was planned in its original charter. This temporary institution was thus the first on the continent of Europe to practice the extinction of debts by compulsory periodical payments.

The old *landschafts* upon adopting the methods of the Posen association all issued new series of debentures designated by a letter in the alphabet to distinguish them from the old issues. These new debentures did not contain the names of mortgagors or descriptions of properties and were not issued against and secured by any special mortgages, as was the case with the old bonds. They were secured by the mass of underlying mortgages and the principal was repaid out of the amortization fund. As the association began to collect contributions to this fund from the members and to redeem debentures therefrom, they assumed, at least in the eyes of the investing public, the primary and a direct responsibility, and thus a second innovation was introduced into the credit system of the old *landschafts*. This occurred in the different *landschafts* at different dates. The issuance of debentures with the mortgaged estates described therein ceased in Silesia for plebeian borrowers in 1849, and for noble estates in 1872;

in Pomerania in 1857; in Brandenburg in 1858; in West Prussia in 1864, and in East Prussia in 1866.

Since the practice of making loans in debentures was continued, the redemption of the debentures out of the funds paid by borrowers operated also for the extinction of their debts, and brought about the third and greatest innovation in the old landschafts, the amortization of the loans by annuities

The landschafts do not all use exactly the same method of amortization. The differences lie mainly in the amount of the annual contribution and the period during which it must be paid, the way the sinking fund thus created is kept, and the rights of the members therein. The methods, however, are so much alike as all to fall within the class known as the "landschaft plan," to distinguish them from the entirely different methods used by other land-credit institutions.

Generally speaking, a borrower in a landschaft pays what is called an annuity in half-yearly instalments, which remains the same as long as he is indebted to the association. This annuity is divided into three portions. The first portion is used for paying the interest on the debentures by which the money for making the loan was obtained; the second is set aside for the cost of business; and the third portion, usually one-fourth or one-half of one per cent, is placed in the sinking fund, together with all voluntary payments which the borrower may have made in advance on his loan. This fund is invested in debentures redeemed or purchased on the bourse. The borrower is given a share in this sinking fund proportioned to the amount of his loan, and when his credits and his portion of the profits equal his loan, it is considered paid and his mortgage is annulled and released of record.

Although no provision is made for the extinction of the loan at the end of a fixed period, a borrower in a landschaft knows that if he faithfully fulfills his engagements, that portion of his annuity which represents payments on the principal will be carefully invested to his account at compound interest, and will gradually relieve his property from debt in a cheaper and more convenient way than by any other system

The release also will come sooner than in a company which has to pay dividends to stockholders, because a borrower in a landschaft, besides receiving all the profits of his money safely invested, enjoys his share in the savings and gains of an association whose chief objects are to eliminate expenses and commissions and to extend credit to its members on the lowest and easiest terms.

The changes in the form and effect of the debenture and the introduction of the amortization idea were followed by another reform which extended the benefits of the landschaft to practically all landed farmers, noble and plebeian. But this fourth innovation was agitated and incepted before any of the others. In 1807 the King of Prussia decreed that the common people should have the right to own manorial estates, which up to that time could be owned only by the nobility. The landschaft of East Prussia was the first to amend its charter and by-laws to conform with the spirit of this decree. The others made similar amendments. This, however, was only a short step forward, because the estates were large and the high figure prescribed in the charters of the landschafts as the minimum value for membership was not reduced. The small holder was still excluded. Hence about the middle of the century, after the multitudes of serfs had been completely freed from menial servitude and given full rights of citizenship, it became evident that the minimum for credit must be reduced if the landschafts were to render to agriculture services commensurate with its needs. This was the fifth and last innovation.

The desired reforms were accomplished in various ways. The East Prussian landschaft lowered the minimum value of farm required for membership to 500 marks. The other old landschafts preserved in the main their aristocratic character, but the Silesian institution opened a bureau in 1849 for making loans on small rural holdings, while in West Prussia in 1861, in Kur and Neumark in 1869, and in Pomerania in 1871, subsidiary associations to make loans on farm lands yielding an annual revenue as low as \$24 were formed by the landschafts and operated under their management. More-

over, new landschafts entirely separate and distinct from the old institutions were organized in Prussia and in nearly all the other German states

Although constructed along the same general lines, uniformity of type does not appear among the new landschafts, while they differ in important respects from the old landschafts. Noble lineage and seignorial tenure have been discarded as qualifications for membership. Every deserving farmer resident within the area of operation may join the association if he owns a piece of agricultural land of the size or value prescribed in the by-laws, but no one is obliged to become a member. Liability for the obligations of the association runs only against those who have borrowed. The extent of this liability varies. In some associations it covers all the real estate which members may possess; in others it extends only to the mortgaged property, no other properties owned by the members being subject to it. The mutual liability also is frequently limited to a percentage of the loans of the members. Six of the new landschafts have done away with mutual liability altogether. Each member is held to pay only his own loan and is not bound to stand as guaranty for those of the others. The losses in these associations are met out of a guaranty fund created by extra contributions or entrance fees paid by their members. In all the new associations the farmer must sign when his loan is made a membership agreement binding him to obey the rules and regulations of the association. He ceases to be a member upon repayment of his loan but his liability continues for a certain length of time thereafter.

Two of the new institutions are similar to the cooperative associations for personal credit which will be described later. They impose unlimited liability on their members, but this liability is protected by the capital stock divided into shares to which members must subscribe upon joining. The capital stock is variable in each association and shares are issued only as borrowers are admitted to membership. They may be paid in full at the time of subscription or in successive instalments. Upon withdrawal from the association, the amount

of his shares is returned to the retiring member upon surrender of the stock certificates. These are adaptations of the building and loan associations in the United States

The debentures of the new as well as the old *landschafts* are all of the new style, that is, they do not contain the name of any specially described property but are worded to show that they rest upon reserves and a mass of underlying mortgages. The methods of issuance are not identical. Most of the associations deliver the debentures to the borrowers, but some make the loans in cash, raising the money therefor by selling the debentures on the bourse. If they are sold below par, the association charges the borrower a little higher interest rate in order to create a fund to amortize the difference between the amount of the loan and the sum actually received. Some of the associations, in lieu of specifying the rate of interest on the loans in advance, fix only the size of the annuity, generally about 5 per cent. The association then disposes of the debentures on the best possible terms, charges the borrower the rate of interest computed for the transaction, and deposits the difference between that and the annuity in the sinking fund. In this case the borrower does not know in advance what will be the exact rate of interest he will be required to pay or what portion of his annual dues will be used for amortization. Although this uncertain method could not be employed by a company which has to distribute its gains in dividends, it occasions no inconvenience to the *landschaft* whose sole purpose is the collective good of its members.

The need or advantage of having a central organization for standardizing their business methods and strengthening their credit by mutual assistance became apparent as soon as the *landschafts* had spread over Germany. Between 1870 and 1875 the market price of the debentures of several of the associations was low and unstable. Inasmuch as their business methods were practically the same, and the guarantees offered were as good as those of others whose debentures were selling at a satisfactory figure, it was evident that the difference was due to distance from the money centers and

adverse local conditions. Although such local troubles of a serious nature have been infrequent with the landschafts, they are nevertheless inevitably recurrent, and render an isolated institution, depending on the financial resources of the affected area, absolutely helpless to afford the needed relief.

The efforts to bring a central organization into existence have been only partially successful. Prussia alone has such an institution. In devising plans for its formation Prussia not only opened up the financial channels which all converge at Berlin, but utilized the principle of cooperation, and encouraged the landschafts themselves to unite into a large association with power to issue debentures upon their combined guaranty, and thus to create a security so safe and sound that it would have all Europe for its market. This idea was the outcome of the report of an investigating committee appointed by the Minister of Agriculture to make recommendations for the improvement of farm-credit facilities. The committee did not submit any definite proposal for a central institution, but it voted in favor of centralization as a means of effecting the needed improvement, and a few years later the landschafts of the eastern provinces of Prussia took the necessary steps to bring about its realization.

The Central Landschaft of Prussia was organized in 1873. Eight landschafts and one communal land-credit institution joined, of which all but one still adhere. The others declined to join for fear of losing their independence, and because they thought that the less flourishing associations would profit to the disadvantage of the more prosperous ones. There has been no need for others to join, because the debentures of each landschaft have found such a ready sale within its own province that it has not been forced to seek outside assistance. Hence the business of the central association has not grown as much as was expected, but the fact that it exists and is available in times of distress has undoubtedly strengthened public confidence in the debentures of the entire Prussian landschaft system.

The organization of this central association is simple and allows the adhering members the fullest liberty of action

consistent with safety. It is not operated for profit. Although possessed of the powers of a corporation, it has no capital stock and pays no dividends. Its members must be other associations or companies which lend on farm mortgages. All such concerns in Prussia are eligible to join.

Its administration, under the supervision of the provincial Minister of the Interior, is conducted simply by a managing board composed of the president of each of the adhering associations. The president of the landschaft or the Ritterschaft of Kur and Neumark is legally the president of the central board, for the reason perhaps that the headquarters of both are in Berlin. It convenes whenever necessary and at least once a year. In the intervals the ordinary business transactions are carried on by a staff of employees.

Loans may be granted up to two-thirds the appraised value of a farm, if permitted by the rules of the landschaft of the territory in which it lies. They are made either in debentures or cash as the central association may decide. They are usually made in debentures if above par, the premium being placed in the reserve fund, if the debentures are below par, the borrower will be given a cash loan for the difference. An extra one-half of one per cent is required on the cash loan until it is paid. Otherwise, the appraisals and contributions for the gradual extinction of the debenture debt are made according to the rules of the landschaft to which the borrower belongs.

The debentures of the central association are issued in denominations of \$2,400, \$1,200, \$720, \$360, \$144, \$120, \$72, \$48, \$36 and \$24, of four per cent, three and one-half per cent and three per cent, with ten interest coupons attached and a talon entitling the holder to a fresh series of ten coupons; other denominations are allowed. The debentures are printed in several languages. When a loan is paid debentures to a corresponding amount must be retired, hence no debentures are ever in circulation in excess of the loans. No limit is prescribed for the total of business that may be done.

The central association does not advance money to the other landschafts or companies, nor does it use them as its

agents or in any other way for the disposal of its debentures. It carries on business like an ordinary landschaft. Its purpose is simply to create a security that will enable members of its adhering institutions to obtain credit at a fair figure during hard times.

If a farmer finds that the debentures of the local landschaft of which he is a member are not selling at a good price, he has the privilege of requesting that his loan be made in debentures of the central landschaft. His land is appraised by and mortgaged to his local landschaft, which issues its own debentures in the ordinary way. Its president (who is also a member of the central board) delivers these papers with the other necessary documents to the central association, which exchanges them for central debentures. Thus by this pledge the farmer gets a bond backed by the collective liability of the thousands of other farmers belonging to the landschafts adhering to the central association, and very naturally the rate of interest is as low as it is possible to obtain on borrowed money at that time.

The central landschaft has no large funds besides the sinking fund accumulated from the contributions made for the retirement of its debentures, and it does not have much need of any. The few gains it makes from premiums and unclaimed debentures or coupons are safely invested in landschaft debentures or government bonds and form a reserve; the profits thereon revert to the borrowers if the fund becomes needlessly large. The association is run at comparatively little expense. No salaries are paid except for clerical services. The interest on its loans is collected by the various landschafts, and they are obligated to make immediate payment out of their own funds in case of default of any of the borrowers.

CHAPTER X

GERMAN PUBLIC LAND-CREDIT INSTITUTIONS

Land-credit Institutions Other Than Landschafts—Necessity for Their Creation.—Three Classes—Land-credit Banks—Original Purpose to Commute Feudal Servitudes—Present Purpose to Supply Cheap Money on Land Security—Operation—Land-improvement Annuity Banks.—Purpose to Finance Land-improvement Projects—Operation—Settlement Commission—Purpose to Create Small Homesteads—History—Operation—State Invalidity and Old-age Insurance Institutions.

THE landschafts are usually reckoned among public credit institutions, but while the old associations which are governed by crown appointees have a public character, some of the new ones are purely private associations. As they now stand, they cannot all be grouped in one category.

The public land-credit institutions properly so called in Germany were created to supply the deficiencies in the landschafts, and to finance operations which they were not authorized to assist. The landschafts, like their aristocratic members, adjusted themselves with bad grace to the march of events. On the breaking up of feudalism they gave very little help to the plebeian landowners and practically none at all to the liberated serfs. In 1887 the German ministry of agriculture reported that the landschafts did not reach the one-team farmer, that is, the farmer of 18 to 34 or even 61 acres. In 1891 the French writer Louis Durand made a similar statement. In 1895 Sir Frederick A. Nicholson, after an exhaustive investigation in Germany, declared that they had failed to assist the majority of small farmers. Hence the service which the landschafts are now doing this class began within the last 15 or 20 years

Again, when lands had to be reclaimed and the area of

productivity enlarged to meet the needs of the rapidly growing population, the *landschafts* were of no service, since they could give credit only on lands that were already improved or capable of yielding an immediate revenue. Private capital was not available for any of these objects because lenders during that period found safer and higher profits for their money in enterprises of industry and commerce in the cities. The state, therefore, intervened from a national necessity, and in organizing land credit for the general purposes of agriculture, granted a greater degree of assistance than was available to the nobility in the *landschafts*. With two exceptions all existing land-credit institutions whose organization dates back to 1862 were aided by the state, while many others of later origin were brought into existence in the same way.

Exclusive of the *landschafts*, there are now three classes of public land-credit institutions in Germany. Institutions of the first class aim to obtain cheap money for all citizens who have good lands to offer as security; those of the second class finance land improvement projects; and those of the third class have for object the creation of homesteads for small holders.

All these public concerns are non-profit-making. They grant long-term reducible mortgage loans and issue debentures to raise the money needed for carrying on their operations. These debentures have no fixed maturity, are drawn in small denominations payable to bearer, and are redeemable at the will of the makers out of the annuities received from the borrowers. Their final security is the guaranty of the Government, and they may be used as investments for funds of savings banks, insurance companies, and all kinds of trustees. The concerns are exempt from stamp taxes and registration fees, enjoy free services of state officials, and possess other special privileges in the way of summary proceedings to enforce the collection of their claims. They are so widely distributed that almost every German farmer is able to dispose of his mortgage at a government agency and obtain a loan up to one-half or two-thirds the value of his land

without commissions or incidental expenses and at the lowest interest rate

In the first class are the land-credit banks established for a whole state, province, or district within a province. These now number 16. The first provincial land-credit bank with a state guaranty in Germany was the Herzogliche Leichkasse in Brunswick, founded in 1765, the first bank of that nature with a communal guaranty was founded in Cassel in 1832; the first bank with a provincial guaranty is the Hanoverian Land-credit Institute, founded in 1840; the latest is the one founded in 1902 in the Grand Duchy of Hesse. The larger number are joint-stock concerns, the shares of which are held by the provinces, communes, and public savings banks of their localities. They are managed by committees appointed by stockholders and are under state control.

The original purpose of these banks was the lending of money to proprietors to enable them to commute into mortgage loans the feudal servitudes which burdened their lands. After this service was no longer required, the banks took up the general business of granting credit to communes and on mortgage to individuals for any object. Three of the banks lend on lands situated anywhere in the Empire; the rest confine their operations to their own states. They all have been serviceable, especially to owners of small or medium-sized parcels, but only the bank in Hanover restricts its business to farm loans. These banks, however, do not conform to the pure type of land-credit institution, because they accept deposits, make personal loans, and accommodate churches, cooperative societies, and public corporations with or without mortgages. One of them is authorized to issue notes, while others have extensive banking powers. Moreover they differ so much one from another in function and organization that they can be denominated as belonging to the same class only because of their common connection with the state.

The loans of the public land-credit banks are usually made in cash, not debentures, but the mortgage and communal loans may be repaid in debentures by the borrowers. The value of land is generally determined by taking the net revenue as

fixed for public taxes and multiplying it by 25 or some such figure, and then fixing two-thirds of the result as the maximum for a loan. Six of the banks lend sums as small as \$75; the minimum loan of another is \$10.50. The rate of interest ranges from three and five-tenths to four per cent (or the rate on the debentures), to which is added one-fourth to one-half of one per cent for cost of business, and one-half to three-fourths of one per cent for amortization, thus making the largest annuity five and seventy-five hundredths per cent.

All gains of the banks are used for reducing the loans if not devoted to some public purpose. Public officials pass upon the applications for loans, and collect the interest and other payments. A sympathetic attitude is assumed toward delinquents. Renewals and extensions are readily granted upon good cause shown, while payments in advance are always allowed. The retirement of the debentures is effected by drawing lots, if they are quoted above par; otherwise they are obtained by purchase on the bourse. The largest denomination is \$7,500 and smallest \$50. In 1909 the average interest rate on debentures in circulation was between 3.52 and 3.66 per cent.

The second class of state-aided institutions comprises five land-improvement annuity banks in Prussia, one similar institution in each of four other German provinces, and eleven provincial-aid banks. The latter are simply governmental departments. They are not important sources of credit for individual landowners. With two exceptions they make loans principally to municipalities, public corporations and cooperative societies. As yet their operations are insignificant.

The land-improvement annuity banks are organized for the administration of appropriations from public funds, and are empowered also to issue guaranteed debentures to raise any other money required for their operations. The Prussian law of 1879 illustrates the objects of all the institutions. It authorizes the creation of these banks by one or more communal districts, for the purpose of granting loans for improving or reclaiming agricultural lands by drainage or irri-

gation, for planting forests, building roads, diking rivers, and opening up and maintaining watercourses.

Each bank is managed by a directorate of a semi-public character and is supervised by a bureau or department of the Government. A plan of the proposed project, with an estimate of the cost, the time required for completion, and the probable value that will be added to the land, must accompany every application for a loan. Agricultural experts are always appointed on the commission which investigates this application, and an appeal lies in all cases from the directorate to the Government.

Loans are allowed up to a certain multiple of the net revenue of the land as calculated for taxes. The limit in Prussia is one-half the value, unless the increase from the improvement is taken into consideration, when three-fourths of the value may be allowed. The loans may be made in cash or with debentures. The debentures issued by each bank cannot exceed in amount the loans granted, and both must bear the same interest rate. If a bank makes its loans in cash, it may issue and sell a corresponding number of debentures.

The rate of interest charged borrowers must not exceed 4.5 per cent; to this must be added at least one-half of one per cent for the sinking fund, with a commission not to exceed one-fifth of one per cent for the cost of business. On loans for drainage works, four per cent per year may be required for amortization. But the annuities must be so calculated that enough will be left out of the annual return of the land for the living expenses of the owner. The money lent is usually advanced by instalment upon favorable report of progress made in the work, thus the loan is always used for the purpose for which it was granted.

A mortgage or a first lien of some other kind must be given on farm or forest lands as security for each loan. A special proceeding is allowed for establishing a loan used for making improvements as a first lien on the land, regardless of prior encumbrances of third parties.

Loans may be made to individuals, to groups of persons, and to incorporated bodies and cooperative societies. The

debentures are drawn in denominations of \$50 down to \$2, and bear ten 4 5 per cent interest coupons and a certificate entitling the holder to another set of coupons. Every six months as many debentures are retired as may be redeemed out of the annuities received from the borrowers during that period.

All profits must be put into the reserve until it equals five per cent of the outstanding debentures. Any excess not needed for expenses is turned over to the official bodies which stand responsible for the debentures.

The last of the three classes of state-aided institutions consists of a settlement commission, eight general commissions, and seven rent charge banks, all in Prussia. The settlement commission has received \$150,000,000 from the state. Its object is to colonize German farmers among the Poles in West Prussia and Posen, and it carries on this work through six hundred officers.

The general commissions are similar organizations established by the state for creating small holdings. In furtherance of this object they have been given judicial powers to decide certain claims and rights to properties, and they are authorized to acquire and reforest moors and waste lands, consolidate separate tracts into the hands of one person, carry out land-improvement projects, and form cooperative societies for irrigation and drainage enterprises. The settlement commission transacts its own affairs, but the general commissions use the rent charge banks as their financial agents.

The rent charge banks were originally devised for assisting the emancipated serfs to obtain clear titles to the lands they occupied, and most of them went out of existence, as it was intended they should, when that object was accomplished. The law of 1807 which put an end to villeinage and enabled these agricultural slaves for the first time to go and come at will and buy and sell as free citizens, did not remove the ancient restrictions regarding the conveyance of land nor change the rights possessed by the noble landlords to a portion of the crops and certain field services from tenants who cared to remain. Hence another law was enacted in 1811 which gave the title to the hereditary tenants. The landlord's

claims were commuted to one-third the income of the land and the new owners were allowed to make mortgages to that extent.

This commutation was made in several ways. If the land was more than 35 acres in area, one-third of it was left to the landlord and the other two-thirds was given to the tenant outright: if under that area, it was subjected to a perpetual corn or money rent. Later in 1811 these rent charges were made redeemable by a capital payment, and transfers were permitted so that the land might pass into the hands of those best fitted to cultivate it. This legislation regarding commutation and redemption of lands from feudal charges was mostly of a permissive sort, and since the farmers had neither money nor credit, it had little effect in bringing about the objects desired. Furthermore, it was limited by the laws of 1816 to a certain class of tenants, and later on by the size of the farm, none under 18 acres being considered.

In 1845, however, all peasant farms, no matter how small, were brought within its scope, the rent charges were declared commutable at 25 years' purchase, and societies were formed for creating sinking funds to amortize the debt. Then, after the social disturbances of 1848, came the law of March 2, 1850, which did away with certain manorial rights without compensation, ordered the commutation of other feudal rights and services into fixed money rents, arbitrarily established the value of the land at 18 times the annual rent for a cash payment or at 20 times for a deferred payment, and obliged the nobles to accept that payment either in lump or in annuities calculated to extinguish the capital within 41 to 56 years. Inasmuch as this was a forcible measure politically inspired and urged by a national necessity, the Government naturally created the machinery to carry it into effect. The rent charge banks were the result.

These banks made no loans. They had nothing to do with appraising property or determining the extent of credit. A general commission or government land office commuted and settled the claim, which was thereupon examined by a special

commissioner, and then, if the appellate commission did not disturb the decision, the rent charge bank was ordered to issue debentures up to 20 times the amount of the award. It delivered these debentures to the peasant, debiting him with their value on the security of his land; the credit so accorded formed a first lien and followed the land and not the person. The interest coupons were legal tender at government offices. Annuities were collected by the public tax gatherers. The banks received the annuities when turned in, and were required to bring the summary proceedings allowed against the debtor in case of default.

The business of the rent charge banks reached its highest point about 1859, and as it fell off the banks were dissolved. Prussia's were dissolved along with the rest, but they were reopened in 1891, to help carry out the plans of that kingdom for dividing up large estates for allotment among the peasantry. Seven rent charge banks still exist in Prussia and operate in connection with the general commissions. Their functions now are to acquire in behalf of the commissions lands to be split up into small holdings, to make loans to incorporated or cooperative bodies which desire to acquire lands for this purpose, and to lend to individuals directly for buying or improving small homesteads.

The commissions have fixed various sizes for such homesteads. With one the minimum is 2.5 and the maximum 75 acres, with another the limits are 5 and 45 acres; while some allow from 75 up to 175 acres. The purchaser of a homestead gives in return a mortgage against which the bank issues three per cent debentures. The loan contract provides that he shall pay the interest on the debentures and a certain percentage of the principal each year. If the annuity thus formed is 4.5 per cent, the debt will become extinguished in 56 years and one month. If it is four per cent, it will run for 60 years and six months. No advance payments are allowed until ten years after the date of the loan.

The state invalidity and old-age insurance institutions created by law in 1889 are public bodies, so the loans made by them may be considered as coming from the state. There

are in Germany 31 of these institutions, besides ten offices for collecting premiums which have funds of their own, drawn from miners, seafaring persons, and railroad employees. The assets of these institutions may be legally invested in mortgages and real-estate securities, but they rarely make loans directly to individuals. Their credit is extended to or through cooperative societies, or communal or other semi-public and non-profit-making corporations. The rate of interest ranges from 3 to 3.75 per cent.

CHAPTER XI

PRIVATE SOURCES OF LAND CREDIT IN GERMANY

Long-term Reducible Loans Made by Public Credit Institutions—Short-term Loans Represented by Second Mortgages—Savings Banks—Their Operation—Mortgage Loans—Private Insurance Institutions—Real-estate Loans Not on Farm Lands.—Co-operative Credit Societies—Land-credit Banks—History—Bonds.—Official Supervision.—Operation—Bavarian Mortgage and Exchange Bank of Munich—Prussian Central Land-credit Company.—History and Operation.

NEARLY all long-term reducible loans in Germany are made by the *landschafts* and public, or semi-public, credit institutions. The reason is easily explained. Such loans, repayable by annuities running through periods of many years, cannot be made out of funds subject to recall. If the money is raised by the sale of debentures, they must have no fixed maturity if amortization of the loans is planned. But instruments of this kind, depriving the holders of the right of demanding the principal of their investments, cannot be sold in quantities unless guaranteed by the government or a concern connected with it; at least, this has proved to be the case in Europe. The loans from private sources are generally for short term, that is, under ten years, and are repayable in lump or in a few instalments.

A very great part of the credit accorded by individuals on real estate in Germany is represented by second mortgages. The volume of this business is large, because the land-credit institutions, public and private, are so conservative in their appraisals that the one-half, three-fifths or two-thirds of the land's value, to which the amount of their loans is restricted, leaves a wide margin for credit upon which their borrowers

realize from other lenders at high interest rates. With a few exceptions, however, all loans made by incorporated bodies are secured by first mortgages

The private institutions which are the heaviest buyers of real-estate mortgages in Germany are the savings banks, the insurance companies, and the joint stock land-credit banks. These concerns make loans purely for profit; in this respect they differ from the *landschafts* and public institutions, all of which grant credit without thought of gain. The interest rates of the private institutions, however, are very little higher than those of the latter. Apart from this slight difference, the chief advantage which the *landschafts* and public institutions can offer over the others is their ability to grant long-term, amortizable loans

The savings banks are the greatest source of land credit for the farmers of small and medium-sized estates in Germany. Most of the German savings banks are public corporations, founded, managed, supervised or guaranteed by a province, district, commune or municipality. They are non-profit-making, so they are exempt from taxation. Surplus earnings go into reserves or are devoted to some philanthropic object. Nevertheless, they carry on their business along very practical lines. Their main purpose is to encourage thrift, so they aim to give depositors as much interest on their money as can be obtained from safe investments

As far back as 1831 the formation of savings banks in rural districts began; there are now 268 rural savings banks. In 1910 there were, including both urban and rural institutions, 2,844 public savings banks with 7,404 branches, and 228 private savings banks with 294 branches, or a savings bank in nearly every farming community in the Empire. At least 20 per cent of their assets is invested in farm mortgages.

One-fourth of the rural mortgages of the savings banks in Prussia, and perhaps a similar proportion in many other German states, are reducible loans. They were made in compliance with the urgent request of the Government, which began in 1886 to call upon the savings banks to help to relieve

the farmers from their burdensome mortgage indebtedness. The method of amortization used, however, is unsatisfactory. Its plan has been described in a previous chapter. The chief advantage in it is that the banks usually surrender the right to recall such reducible loans.

All the other mortgage loans of the savings banks are, after the first year, subject to recall on three or six months' notice, regardless of the length of the term specified in the contract. The extent of the credit accorded on a piece of property is usually one-half to two-thirds of its value, but three-fourths and even five-sixths of the value is allowed on reducible loans on small holdings, provided the contribution to the sinking fund is one-half of one per cent or over of the principal each year.

If the land has been valued by a landschaft or a public credit institution, the savings banks will accept its valuation and thus save the applicant the expense of an appraisal. Loans as small as \$500 are frequently granted. The interest rate is never over five per cent. More than one half of the loans bear interest at between five and four per cent, over one third of them at four per cent, and many at only three per cent.

The private insurance institutions of Germany are classified according to the business they carry on, as life, fire, transportation, accident, hail, cattle, glass, burglary and reinsurance. As to organization they are either mutual societies or joint-stock companies. Over two-thirds of their enormous funds is invested in real-estate mortgages, but only an insignificant portion of them are farm loans.

Most of the loans granted by the private insurance companies may be recalled on three or six months' notice. The reducible loans cannot be recalled until after a term of years. Amortization, however, is not practiced to any considerable extent. No sum larger than \$50,000 can be loaned on one piece of property. If an applicant asks for a loan exceeding \$25,000, the property must be appraised by experts, usually selected from a landschaft, public institution, or chamber of agriculture in the locality. The legal limit to credit is three-

fifths the valuation of the property. In some states two-thirds of the value has been specified. The interest rate averages about 4 4 per cent, to which must be added in the first year a commission of at least one per cent, which most of the insurance companies retain from the principal at the time of making the loan

The cooperative credit societies of the Raiffeisen type in Germany frequently take mortgages on their loans, but the security is considered secondary to the personal obligation of the borrower. The mortgage business is carried on not so much as a matter of profitable investment for their funds as for doing a service for their members. A mortgage is sometimes placed on the property of a borrowing member simply to protect it from other possible creditors. Again, if a member wishes to buy out the rights of a co-heir or to acquire a small farm, his society will invariably advance him the money therefor on mortgage. Loans of this kind usually run for ten years or longer and are repayable in instalments. Some of the rural credit societies are authorized to issue debentures. Professor Robert Mully von Oppenried estimated that in 1908 the mortgage holdings of all the cooperative societies belonging to the Imperial Federation totaled \$43,203,000. They have probably increased since that year. In Bavaria and some of the other German states statutes have been enacted which give cooperative societies the option of buying all agricultural lands which are offered for sale, for subsequent resale to members.

The joint-stock companies known as land-credit banks numbered 38 in 1912. The aggregate of their capital and assets is enormous, but only one-sixth of their mortgage holdings are farm loans, while ninety-one per cent of this one-sixth is in the hands of one Prussian and seven Bavarian banks.

The first private banking concern to accord land credit in Germany was the Pomeranian Ritterschaft Bank, founded in 1824. The oldest land-credit bank with shares owned by private individuals is the Bavarian Mortgage and Exchange Bank of Munich. This was founded in 1834 for a discount,

deposit, savings, and fire- and life-insurance business. It was authorized to issue notes up to four-tenths of its capital of \$4,280,000. These were to be legal tender, and three-fourths of the issue had to be secured by mortgages. Hence the main reason for taking mortgages was as a security for these notes. The Bavarian Mortgage and Exchange Bank did not develop into a regular land-credit bank until 1864. The first private bank which had a special purpose from the start to extend credit to landowners was organized at Dessau in 1846, but it no longer continues as a land-credit institution. The oldest existing bank founded especially for this purpose is the Credit Institution for All Germany, which was organized at Leipzig in 1858, but has issued no debentures since 1899.

The mortgage operations of all these early banks were handled in departments separate from their regular business. Apart from the institutions mentioned, all existing companies (down to 1912) were created since 1862. Twenty-seven of them came into existence within 11 years after that date. Eight were organized within two years between 1894 and 1896. One was founded in 1886.

All these banks were chartered by special administrative or legislative acts or under provincial laws. There was no national and general law for land-credit banks until 1899. In that year the Imperial legislature enacted a law for forming such banks and regulating their business. Only one bank has been formed under this law, but all the 37 banks mentioned complied with its terms and have received licenses under it.

This law has nothing to do with the *landschafts* or public credit institutions. It relates only to private concerns which issue bonds or debentures against mortgages. It forbids all except joint-stock companies and limited partnerships from issuing such bonds, and requires that license be obtained before beginning business. This license may be obtained from a state unless loans are intended to be made in two or more states, when it must be obtained from the Imperial authorities. The chief object of the law is to make the bonds a standardized and safe investment. No special privileges have

been accorded to the banks. The provisions are regulatory and restrictive

The banks which may be authorized to issue bonds are either pure or mixed land-credit concerns. The former limit their business to loans on mortgage and the issuance of bonds, the purchase and sale of real-estate securities, the granting of loans to municipalities and public utility-corporations, the purchase and sale of stocks and bonds on commission, the receipt of deposits not to exceed one-half of their paid-in capital, and the collection of bank paper. The latter are similar to American trust companies and are not favored by the Government. They number eight, and perhaps no others will be chartered

Official supervision is prescribed but it is left to the states in which the banks do business. It embraces all the dealings of the bank, and is exercised through a state bureau and a fiduciary agent appointed for each bank. The state may demand a special report on any transaction and may send a representative to the meetings of stockholders, directors, and officers. The fiduciary agent has joint custody with the officers of the bank to which he is assigned of all papers connected with the bonds. He has absolute custody of the mortgages used as security for the bonds. He holds the mortgages as a trustee, and must attach his signature to all bonds issued to certify that they are sufficiently covered by mortgages deposited in his care. Consequently these bonds are not debentures, because they are secured by specified mortgages. As mortgages are paid off, others must be turned over to the fiduciary agent.

Loans cannot be made abroad, nor in any state from which the bank has not obtained a license. A loan may not exceed three-fifths of the value of the mortgaged land, except in the case of farm loans, for which a state may allow two-thirds of the value as the limit. No property may be taken on mortgage which does not yield a steady income. One-half of the total of farm loans made by a bank must be reducible by an annual payment equal to at least one-fourth per cent of the principal. Borrowers have the right to make advance

payments but may agree to defer this right for ten years. The instalment paid in advance on reducible loans must be large enough to shorten the term of the contract by one or more years, but if a borrower has paid up one-tenth of his loan, he may demand that the bank arrange a new scheme of amortization for him with a smaller annuity.

The bonds issued by a bank must always be covered by an equal amount of mortgages bearing at least the same rate of interest placed in the custody of the fiduciary agent. No premiums or prizes are allowed upon the redemption of the bonds. In the event of the dissolution of a bank, the bondholders have a claim on the mortgages registered for their security against all other creditors. The total of bonds outstanding must never exceed for a pure land-credit bank 15 times its paid-in share capital and a special reserve designed to meet any deficit that might occur. Mixed banks cannot issue bonds in excess of ten times this limit, but some which had the right before the passage of the law to issue bonds to 20 times that limit have been left in possession of it.

At the last calculation, 58.48 per cent of the bonds of the German land-credit banks bore four per cent interest, 39.65 per cent of them 3.5 per cent, and the remainder 3.75 and 4.5 per cent. The interest on the mortgages was usually about one-fourth of one per cent higher, plus costs and commissions. Most of the banks have paid at least seven per cent or more in dividends regularly for many years.

The lack of success of the German land-credit banks as regards farm loans has been attributed to various causes. But the trouble seems to be that only a few of them have the necessary size and standing to enable them to sell bonds which have no fixed time for maturity, and that in consequence of their inability to raise money by such instruments, they are not in a position to grant long-term, reducible loans of the kind needed by agriculture. The proof of this lies in the fact that the two big banks which have gained the confidence of the investing public do a large farm-mortgage business, nearly all of which is on the amortization plan and represented by debentures not recallable by the holders.

These two concerns are the Bavarian Mortgage and Exchange Bank of Munich and the Prussian Central Land Credit Company. The King and Queen of Bavaria and high state officials were charter members of the former when it was founded in 1835. The latter, which was established in 1870 with the special object of aiding agriculture, is a semi-public institution. The Bavarian bank has paid over 12 per cent dividends since 1890; from 1907 to 1911 it paid 13 per cent. The Prussian bank is the more important of the two, since its operations extend over the entire Empire.

The Prussian Central Land Credit Company, a joint-stock corporation, was the outcome of the efforts of Prince Bismarck to create a national mortgage institution for the great Empire that he was forming. He assisted three powerful banking houses to obtain a charter by a special law, and he persuaded France, whom Germany was about to fight, to order the then president of the *Crédit Foncier* to serve on its board of directors. The government bank of Prussia bought a large block of stock so as to give the new concern prestige and aid its first ventures. The headquarters of the company are at Berlin and between three and four hundred agents are scattered throughout the Empire. It is authorized to do business anywhere in Germany but most of its loans are confined to Prussia.

The bank is supervised by a special royal commissioner under the Prussian Ministry of Agriculture, Public Domains and Forests. The stockholders at their general meeting elect three auditors for three years to examine the loans and oversee the management. They elect also 18 directors, among whom they designate one president and three vice-presidents to be appointed by the King. The directors, who must be citizens of Prussia, serve for ten years. The bank operates under the law of 1899, so far as it does not interfere with its special privileges.

The original capital stock of the Prussian Central Land Credit Company was \$8,640,000; it has been increased to \$10,656,000. The company may issue mortgage loans up to 20 times its original stock and 15 times the increase. It may

issue communal bonds up to 24 times the original stock and 18 times the increase. The intention was to make the bank distinctively a land-credit company, but it soon drifted from this course and began to lend largely to municipalities and public-utility corporations and to receive deposits. These were powers granted by its charter. Today, however, it has become a land-credit institution second only to two in Germany.

The bank has \$165,200,412 72 in farm loans, \$134,627,556 72 in loans on city properties, and \$44,386,643 28 in loans to municipalities. Against these loans it has bonds outstanding to the total of \$235,769,940. The smallest loan granted is \$250, and the largest \$1,440,000. Two-thirds of the value is the largest loan that will be granted on any piece of property. The value may be ascertained by the experts of the bank or by a landschaft or public credit institution, or the bank may take 22 5 times the figure calculated by the public officials as the annual income of the property for taxation, provided the income does not surpass four or five per cent of the capitalized value.

Borrowers now pay 4.25 or 4.50 per cent interest. Besides, they pay a commission composed of one per cent as a tax to the state, one-half of one per cent to the bank for profit, and one to one and one-fourth of one per cent to cover the cost of business. This amounts to somewhere between two and three per cent over the interest rate for the first year. In addition they pay a contribution to the sinking fund. Over two-thirds of the farm mortgages are reducible by amortization. Most pay one-half of one per cent; this extinguishes the loan in 56½ years. Others pay one per cent; this extinguishes the loan in 44 years. Only first mortgages are taken. Foreclosures rarely occur on farms. About one foreclosure for 146 loans is the average on city properties. A borrower cannot demand that the bank take an advance payment until ten years after the loan has been made; thereafter he may repay his loan as fast as he pleases.

Debentures may not be issued by the Prussian Central Land Credit Company at a rate of interest lower than that

of the mortgages by which they are secured. At present bonds are drawing four per cent and are selling at 96. The smallest denomination is \$24 and the highest is \$1,200. The bonds are payable to bearer, without fixed time for maturity. They are callable at the will of the bank. Sometimes it redeems them in series, and at other times by individual numbers. The communal debentures may be used by trustees for the investment of the funds in their care, but the mortgage debentures have no privileges. No debentures may be issued unless the royal commissioner certifies by his signature upon them that they are sufficiently covered by underlying mortgages, equal in amount and bearing at least the same rate of interest of such mortgages.

The lowest dividend the bank has ever paid was seven per cent, and this was for the first year. For 42 years the dividends have averaged 8.75 per cent. In 1912 they were 9.5 per cent. The reserves are about 41 per cent of the capital.

CHAPTER XII

FRANCE. THE CRÉDIT FONCIER

Legislation.—History of Land-credit Movement—Creation of the Crédit Foncier—Privileges—Organization—Capital Stock.—Purpose—Two Sources of Funds—Long-term Loans—Syndical Associations—Long-term Leases.—Amount of Loan.—Application for Loan.—The Purge—Terms and Penalties.—Use of Debentures.—Premiums.—Special Privileges

THE legislation on land credit in France comprises the law of 1852 on bond and mortgage institutions, the law of 1906 on long-term credit for agricultural cooperative associations, and the law of 1910 on long-term credit for small home-steaders. This legislation furnishes striking instances of state aid and special privilege.

In the beginning of the last century land-credit facilities in France were in bad condition, mainly because of defective laws regarding the registration of instruments affecting the title or possession of land. A lender who took a mortgage was never sure of recovering his claim in case of foreclosure. Consequently money was scarce and usury rife. The land was so heavily encumbered with debts which had been accumulating for generations that its returns were barely sufficient to pay taxes and annual dues.

In 1826, when farmers and landowners were on the verge of bankruptcy, Casimir Périer offered a prize for the best answers to the following questions:

What are the defects and deficiencies in the French laws relating to mortgage loans?

What are the obstacles which deter capital from seeking such investments?

What would be the best plan to adopt for the purpose of framing a complete project for settling these problems in a way which would be most in harmony with the needs of the public treasury and building contractors and with the security required by lenders?

M Périer's offer started a movement that lasted 26 years and produced a voluminous literature which is the best ever written on land credit. Counting everything relating to the subject, according to Joaquin Diaz de Rabago, over two hundred plans and systems were proposed and discussed. Four writers were equally prominent in this long campaign.

In 1839 Louis Wolowski, a young man who subsequently became one of the organizers of the first land bank, submitted to the Academy of Moral and Political Science an essay which gave to France her first information on the German land-schafts. Inspired by this pamphlet the French Government sent a special commissioner, Charles Edward Royer, of the Ministry of Agriculture, to Germany and Belgium in 1844 to make an investigation of their land-credit institutions. M. Royer died in 1847 at the age of 37, but his remarkable report, compiled after a few months of travel, left a profound and permanent impression upon students and legislators.

A few years later the Minister of Agriculture appointed a commission of three to make further investigations. The report of its secretary, Jean Baptiste Josseau, rendered in 1851, covered nearly all the European countries in which land-credit institutions then existed. In the same year the Chégaray report was presented on behalf of a legislative committee to which had been assigned the duty of examining the various projects submitted to the National Assembly. This document is a comprehensive account of the entire land-credit movement in France. It summarized all the material which had been accumulated and analyzed the projects at length. Hence the French people, then thoroughly aroused, had before them all available information; and it led directly to the idea of the long-term loan repayable by annuities and the issue of debentures without fixed maturity.

The law of 1852 was the result of the movement started by Casimir Périer. Various amendments have been made in details but its basic principles remain unaltered. The law is divided into five parts. The first specifies the functions of land-credit institutions and the ways in which they may be organized, the second lays down rules for making loans, and the third, for issuing debentures; the fourth prescribes the measures to be taken for adjudicating titles and protecting loans against the claims of third parties, and the methods of recovery against borrowers, and the fifth enumerates the special privileges and restrictions under which the business must be conducted. For aiding any institutions that might be formed, the law authorized the national government and the departments to purchase certain quantities of their debentures each year, and also appropriated \$2,000,000 to be allotted among them. The reformation of the mortgage and registration laws was left to subsequent legislation; instead the land-credit institutions were given a special procedure for purging titles.

The law did not express any preference for the association of borrowers (*landschaft*) or the joint-stock company. It declared that both might be formed, but no *landschaft* was ever created in France. A number of companies, however, came into existence shortly after the passage of the act. The Land Bank of Paris was chartered on March 28; of Marseilles, on September 12; of Nevers, on October 20, 1852. Others were started at Lyons, Toulouse, Orleans, Poitiers, Limoges, Rouen, Bordeaux, and Brest in the same year: in fact the Government then favored a plurality of institutions and intended that one should be established for each department. But doubts soon arose as to the advisability of such a plan. Fear was felt that a large number of institutions could not be properly supervised and compelled to conduct their business along proper lines. Moreover, the trouble which the district banks had encountered in the then recent panic of 1848 was recalled as a danger that might result from competing companies. These small commercial banks, which had been formed during good times, thrived so long as the calm lasted,

but when the crisis occurred, and when their assistance would have been most useful to trade and commerce, on account of their meagre capital and resources, some were obliged to cease operations and others to suspend payment, and they escaped complete ruin only by consolidating with the Bank of France.

After a few months' trial with several companies in the field, therefore, France decided that centralization and unity of action were better than competition, and proceeded to establish a large central institution with agencies throughout the nation, which should make loans upon the same general conditions and issue debentures of standard types. On December 10, 1852, Emperor Napoleon III promulgated a decree which extended the powers of the Land Bank of Paris, the first company organized, to all departments in which no companies yet existed, conferred upon it the title *La Société du Crédit Foncier de France*, authorized it to absorb the other companies which had been formed, turned over to it the appropriation of \$2,000,000 (which has never been repaid), and granted it a monopoly of 25 years.

A decree of 1853 allowed the *Crédit Foncier* to award prizes by lot upon the recall for payment of its land debentures. A decree of 1854 provided that its president and two vice-presidents should be appointed by the Emperor, and that three of its directors should be selected from the Ministry of Finance. In 1856 it absorbed the land banks of Marseilles and Nevers. A decree of 1858 substituted the *Crédit Foncier* in place of the state for financing drainage projects and authorized it to issue debentures guaranteed by the state for this purpose. The monopoly was not renewed, but the free subsidy and permanent special privileges mentioned and others later granted have enabled it to overcome all competitors. It is the only mortgage-bond company of consequence lending on land situated in France. Its charter embodies the main provisions of the law of 1852, so there is no need to discuss the law apart from the charter and by-laws of the company.

The president of the *Crédit Foncier* (land credit) must hold 200 shares of the company's stock. His salary is \$8,000.

He is the representative of the state and has control over all affairs not otherwise assigned. He holds office during good behavior, as do also the two vice-presidents who perform such duties as are delegated to them by the president. Each vice-president draws a salary of \$4,000. Each must hold 100 shares of stock. Shares so held are inalienable during the terms of office, and are deposited with the company as a guaranty for good conduct. Besides these officers the Crédit Foncier has a board of directors, auditors, and a general assembly of shareholders.

The board of directors is composed of the president; at least 20 stockholders; the vice-presidents and auditors, who, however, have no vote; and three high officials of the Ministry of Finance. They receive a *per diem* for attendance at meetings. Five of the members are retired each year by order of seniority but are eligible for reelection. The board exercises all powers not reserved exclusively to the president and other officials.

The auditors must also be stockholders. They receive a reasonable compensation. They watch over the affairs of the company, especially the records and accounts, the issuing of debentures, and the proper execution of the laws and the by-laws. Their powers, however, are limited to making reports and calling special meetings of the stockholders whenever they deem it advisable.

The general assembly is composed of the 200 stockholders holding the largest number of shares, but 40 constitute a quorum if they own one-tenth of all the shares which have been issued. It meets regularly once a year on 15 days' notice published in the two official newspapers. The president presides. Two stockholders having the largest number of shares act as tellers. Only stockholders may hold proxies. The majority prevails. Each has one vote for every 40 shares held, but no one may have more than five votes in his own name, nor more than ten counting proxies. Everyone entitled to attend the meeting has one vote, although he may not own 40 shares. The president and tellers select the secretary for the meetings.

The docket is prepared by the president and board of directors in advance of the meeting, and nothing else can be brought before the assembly during the sessions. The regular procedure is to receive the reports of the president and auditors, and at an annual meeting to elect directors and auditors in place of those retiring. Upon proposal of the president amendments to the by-laws may be made, but they require a two-thirds majority and the approval of the Government. Notice of the proposal of amendments also must be specifically noted in the call for the meeting. The dissolution of the company is likewise determined by the assembly.

The capital stock of the Crédit Foncier is now \$45,000,000, but it may be increased to \$50,000,000, divided into 500,000 non-assessable shares of \$100 each. Shares cannot be bought or used as collateral by the company itself, except for the temporary possession allowed for the recovery of unpaid partial payments due thereon. Stockholders have the refusal of all new issues proportionately to shares already held. If new issues are sold above par, the premium is placed in the special reserve. Shares may be made out in the name of the holder or to bearer; if the former, they can be sold or transferred only on the company's register. Payment on shares purchased may be made in instalments. The certificates may be deposited with the company for safekeeping, but dividends in any case are considered as legally paid when given to bearer. The ownership of stock confers title to a *pro rata* share of the profits and assets but no right of action against the company therefor. Stockholders must abide by the decision of the general assembly in all disputes between them and the company.

The capital stock was designed mainly as a guaranty for the debentures and is kept largely in quick assets. The law has strictly prescribed the form of investment so as to render the capital stock always available for its primary purpose. One-fourth must be kept in government bonds, one-fourth represented by the company's office buildings, by loans to colonies or countries under a French protectorate, or by securities of the kind used for collateral by the Bank of France,

only the remaining half can be legally employed in loan operations. In 1911 no more than \$1,101,565 of the real-estate loans on the books of the Crédit Foncier were made therefrom, and this was an exceptional amount, authorized by law to relieve the victims of the earthquake and inundations of the two preceding years. The balance is represented in extensions granted to debtors in arrears on their annuities, the cost price of properties taken in foreclosure, commercial paper, and other fluid securities

Five per cent per annum is allowed to shareholders out of the earnings. After this dividend has been paid, the board of directors must set aside a sum between five per cent and 20 per cent of the remainder of the earnings for the obligatory reserve. The board may provide also for special reserves. The balance of the earnings may be used for dividends. A dividend not claimed within five years reverts to the company.

When the obligatory reserve equals one-half the capital stock, no further payments may be made into it. This reserve is used to steady the dividends and assure five per cent to stockholders each year. It is now about one-tenth of the capital stock. Its investment rests with the board of directors, by whom it is held in quick assets.

The Crédit Foncier operates only in France, Algeria and Tunis. Its headquarters are at Paris, where, besides its general office, it has large safe-deposit vaults used extensively by the public. It maintains a pension fund for retired employees.

The company's primary purpose is to lend sums on mortgage to landowners, repayable either at long term by annuities or at short term with or without amortization, and to create and issue debentures up to the amount of the loans granted. With the consent of the Government, however, it may use any system which would facilitate lending on real estate, the advancement of agriculture, the improvement of the soil, and the extinction of the land debt. It is authorized also to lend with or without mortgage to departments, municipalities, syndical associations, hospitals, public establishments,

and on drainage projects, and to issue debentures against these loans. In addition to this, it may discount the paper of a subsidiary building company called the Sous-Comptoir des Entrepreneurs de Bâtiment, and also receive deposits up to \$25,000,000.

The law requires one-fourth of the deposits to be kept in account current with the treasury department or in securities deposited in lieu thereof, and the remainder in government annuities, treasury bonds, and negotiable instruments and collateral receivable by the Bank of France. The deposits may be loaned on the security of the company's debentures.

The Crédit Foncier has two sources of funds for its operations. The first is its capital stock, reserves and deposits; most of these funds are employed in carrying on a pure banking business or are placed in short-term loans or in investments specified by law. The second is the money realized from the sale of debentures; practically all of this is used for long-term loans.

The long-term loans are those for periods between ten and 75 years. They must always be repaid by annuities. Those under ten years are known as short-term loans. These alone may be repayable in lump or by instalments. As already indicated, certain classes of borrowers need not give mortgage security.

Loans for drainage projects run for 25 years and are repayable by an annuity of 6.41 per cent. If made to associations or corporations upon arrangement or guaranty of the Government, the company may acquire a statutory lien thereon through certain legal proceedings. In all events the company has a right to the revenues and crops of the drained lands for its annuities. This claim is second only to taxes and public assessments or to the costs of making the crops, and may be enforced by the same means provided for recovering taxes if the company can prove that the money was actually used for the purpose for which it was lent.

No mortgages need be taken for loans to the departments, municipalities, syndical associations, public-utility corporations, hospitals, and religious and charitable associations. The

budgets, valuable assets, large properties, and, above all, the high character of the management of such institutions, have proved to be ample security. The use of the long-term loan with amortization, the mother-idea of the *Crédit Foncier*, is peculiarly adapted to them, because the works which they undertake are usually for the purpose of increasing their revenue rather than for restoring the capital expended. The incontrovertible usefulness of amortization for institutions of this kind is shown by the fact that nearly one half of the outstanding loans have been made to them. These loans usually run for periods of thirty to forty years.

The syndical associations referred to are groups of persons united to protect or develop a common property, to complete projects which can be carried out best by collective effort, or to do anything else to further their mutual interests. First mortgages are required for loans made to individuals, but there are exceptions. Loans which are used to pay off prior encumbrances are considered as made upon first mortgage if the payment results in putting the company's lien above all others without any concurrent claims. The company retains a sufficient sum out of the loan until these prior claims are paid off or subrogated to the mortgage taken by it. This exception to the general rule was absolutely necessary in France at the period when the law was enacted. It was evident that most of the applications for loans would come from landowners already burdened with debt, and if they had been deprived of credit, the legislation would have failed of its aim, which was to relieve the farmers from oppression and usurious practices and to convert their heavy existing indebtedness, bearing excessive interest, into easy annuity contracts, and so enable it to be paid off gradually out of the yearly savings from the products of the soil.

The *Crédit Foncier* may lend to individuals upon property covered by life estates or long leases, provided their value added to the amount of the loan does not exceed one-half the value of the property. This provision was introduced because it often happens, especially in the cities, that real estate offered for mortgage is thus encumbered to an extent very

small compared with its total value, and to refuse a loan in cases like these would place the company in conflict with customary methods of the country. Long-term leases in Europe frequently run for 99 years, or three lives. The rent is reasonable. The obligation of the lessee is to make all necessary repairs and improvements, and finally to surrender the premises in as good condition as when he received them, less ordinary wear and tear. The mortgage given is upon the revenues of the property.

The amount of a loan made by the *Crédit Foncier* on real estate cannot exceed one-half the value of the mortgaged property. The maximum is one-third for properties liable to easy depreciation, such as forests, vineyards, orchards, nurseries and the like, while mills and factories are estimated only upon their value independent of their industrial purposes. The property mortgaged also must have a steady and certain revenue. This does not mean that at the time it is offered for security the property should in fact be yielding a revenue of the kind required, but it must be rentable and capable of returning money in a regular manner. For this reason the *Crédit Foncier* does not lend upon theaters, mines or quarries. No limit is fixed as to the size of a loan which may be made to one person or on any piece of land.

There are other classes of property which may not be used for security. The *Crédit Foncier* does not lend on the public domain or upon lands to which is attached a title of honor. Moreover, lands held in entail or subject to servitudes, rights and charges which cannot be removed, or lands of which the applicant is only part owner or holds the fee without the right of possession, or has no power to dispose except in a specified way or upon authority of other persons, may not be taken for security unless all parties interested consent to the mortgage. The company, of course, cannot do business with minors, outlaws, incompetent or missing persons except through their guardians or trustees, or usually with wives without consent of their husbands.

Applications for loans must be made on forms furnished by the company, and must set forth the amount and length of

the credit desired and the name of the applicant's attorney. If the applicant is a department, municipality or corporation, authority for the application and the resolution providing for the repayment of the loan must be attached. If the applicant is an individual, the location, nature, value, revenues, and taxes of the real estate offered in security must be shown and papers produced to prove the owner's title, civil state and capacity, and marriage agreements affecting the property. The applications may be filed at headquarters or in any of the offices of the company throughout the country.

After the value of the property and the capacity of the owner have been passed upon by the field agents, the board of directors determine the amount of the loan which may be granted and a conditional contract is signed. This contract contains all the terms of the loan and binds the company to pay and the applicant to receive the amount applied for if the title to the property is found perfect. It is filed with the public recorder and prevents the applicant from transferring his property or encumbering it until the deal is closed or called off.

The Crédit Foncier then proceeds to avail itself of the most important privilege which has been given to mortgage-bond companies in France under the law of 1852. After assuring itself that the title is clear of all registered claims, it starts a procedure which brings to light any hidden claims. This is called the "purge." It consists of a short notice officially published calling on third parties to show their rights. The process takes only three weeks and costs about one dollar. If claims are presented as a result of this notice, the company may at its discretion oppose them and call on the owner to pay the cost of the suit, or cancel the registration of the conditional contract and reject the application. If claims are not presented, no third party can ever afterwards contest the company's lien, while the loan applied for must be granted. The filing of the conditional contract and the completion of the formalities of the purge constitute the company's mortgage. The purge for mortgages is nothing more than the Torrens system which was subsequently devised

in South Australia in 1857 for the registration of all titles to land. With other persons a mortgage must be inscribed anew every ten years to keep it alive, but this requisite is dispensed with for companies licensed under the law of 1852 during the entire period of the credit. The final contract for the loan is signed by an official representative of the president of the company and by the borrower, and it is certified by the attorney of the latter. All the costs are borne by the applicant, even if the loan is refused. They average about 3.5 per cent of the loan; thus, for a loan of \$2,000 the costs would be \$70.

If the loan is for a short term, the borrower contracts to pay the interest and the principal or instalments thereon at the stipulated times, but if it is for a long term he contracts to pay neither interest nor principal. He agrees to pay an annuity in cash every six months in advance. The annuity must not exceed the revenue of the mortgaged property. This clause was inserted in the law to prevent the borrower from obligating himself to pay more than he could obtain from the returns of the soil. The annuity does not include any assessment for cost of business, as is the case with the German *landschafts*. Its rate of the annuity, as already shown, is computed upon the amount of the loan, the length of the credit and the agreed interest.

The rate of interest on money loaned must not exceed by more than six-tenths of one per cent the rate of the debentures by which it was raised, except in Algeria and Tunis. The present rate of the *Crédit Foncier* for mortgages in France is 4.30 per cent. At this rate the half-yearly annuity necessary to pay \$1,000 in 30 years is \$29.82218. If the period were lengthened the annuity of course would be smaller. As a rule a very long term is taken, since the choice of periods between ten and 75 years is left to the borrower, and prepayments are allowed.

So long as the borrower keeps his engagements the company may never recall the loan. The borrower, however, may make advance payments in whole or in part for a small indemnity of one-half of one per cent of the amount. For all

payments except annuities he may use either currency or debentures of the issue of his loan. According to the law the company is bound to receive debentures so tendered at par, no matter what their market quotation may be. The courts cannot grant a debtor of the Crédit Foncier any delay in the payment of annuities, nor can such payment be stopped by any legal proceeding. This means that a creditor neither of the company nor of its borrowers can interfere by any process of law with these payments.

If a borrower defaults his interest or annuity the Crédit Foncier may obtain an order of court putting it in possession of the mortgaged premises 15 days after notice. Five per cent interest is charged on arrears. During this sequestration the company receives the revenues and crops, may rent or farm the land, make all necessary improvements and repairs, and do anything for its upkeep as an owner. The receipts are applied to the payment of the debt and expenses. When its claim is satisfied the company must render an account to the debtor, turn over to him any balance which remains in its hands, and surrender possession of the land.

Should the arrears be not collected through the sequestration, the Crédit Foncier may apply to the court for an order of expropriation. This procedure requires only one month and may be taken whenever the loan may be called in. The breaches of the contract which give the company this right, besides an uncollectible annuity or interest, are the bankruptcy of the debtor, failure to repair damages, and failure to give notice to the company within one month of any conveyances he may have made affecting the title or possession of the property or of any deterioration resulting from fires or other causes.

During the trial of the case the company may take possession and levy on the property for the full amount of its claim. Should there be a dispute over facts the matter is summarily decided. The company's books and records prevail over any evidence furnished by the borrower. No appeal is allowed. After a few formalities and the usual publications, the sale is held and quickly confirmed, transferring

all the defendant's rights in the mortgaged property to the purchaser.

The distinguishing feature of a land-credit bank is the right to issue bonds or debentures. No matter whether its form of organization be cooperative or corporate, these must be the chief sources of funds for its operations. They are negotiated only after the loans are made, and through them the credit value is separated from the mortgaged property, split up into convenient parts, and mobilized, while the bank which issues them becomes the guarantor-in-chief to the lenders for the return of the money by which the loans were made.

From December, 1856, to July 24, 1877, except for an interval between May, 1869, and December, 1870, the *Crédit Foncier* employed the German *landschaft* method and made its loans in debentures. Now, however, it makes its loans in cash only, and since the retirement of the series issued prior to 1879, the company has stopped receiving debentures on advance payments of borrowers, in spite of the law and the provisions in its charter. Debentures are issued and used now only for raising funds for carrying on the company's operations.

The debentures are of four classes. The first class are for long-term mortgage loans; the second for loans to departments, municipalities, public corporations, etc.; the third are of three- or five-year maturity for short-term mortgage loans; and the fourth, guaranteed by the treasury department, are for drainage projects. No debentures of the fourth class are in issue. Those of the first class are called *land*, and those of the second *communal*, debentures. The total of all classes in circulation must not exceed 20 times the capital stock of the company. Land debentures may be issued in denominations as small as \$20.

The land and communal debentures may be made payable to bearer or to a person denominated therein. They may be transferred in the first case by mere delivery, in the second case, only by written assignment on the stub of the book from which they are detached. They are numerically re-

corded, and must be stamped with the company's seal, signed by a director, and visé by the president. The interest is payable half-yearly, and the date fixed for the payment of the annuities on the loans is fixed at least three months in advance of the interest date on the debentures. This gives ample time to make recovery against debtors in default.

The debentures are issued in large blocks or series. The smallest existing series is of \$50,000,000, and the largest of \$180,000,000. Although the company thus raises its operating funds in advance, however, the face value of debentures in circulation must never exceed the amount of the outstanding loans. This means that there must be a countervalue of mortgages or loan contracts for each and every debenture sold. Money realized from the sale of debentures may be used for no other purpose than making loans. Pending its employment for this purpose it must be invested in government bonds or other safe securities.

The land debentures have no fixed date for maturity. They are retired by drawing lots every six months. At each drawing enough debentures must be called in so that those left in circulation shall not exceed in face value the total amount of loans outstanding. Debentures withdrawn by lot cease to draw interest. Their principal becomes due after the notice that they have been drawn for redemption is duly published in the newspapers and posted at headquarters. They then must be cancelled and destroyed. Debentures purchased by the company, however, may be returned to circulation upon a new visé by the president.

With the consent of the Government the Crédit Foncier may issue its debentures with premiums or prizes. Prizes are given in all but one of the 13 issues which now have debentures in circulation. In some of them debentures drawn for retirement may receive not their face value of \$20, \$50 or, \$100, but \$200, \$1,000, \$2,000, \$5,000, \$10,000, \$20,000 and even \$40,000. In 1911 there were 4,362 chances outstanding amounting to \$2,842,000. A drawing in one or more of the issues is held every month at headquarters. It is plain lottery and, as the management says, creates quite

an attraction for the debentures. The company's pamphlet reads in translation as follows:

On the day of the drawing the wheel is brought forth from its iron clad and guarded vault In presence of the public and the auditors, the president of the *Crédit Foncier* surrounded by the board of directors opens the session The wheel is revolved many times so that the numbers may be thoroughly mixed The seals are then examined and broken The slot is unlocked and opened, and a child from a public orphan asylum with naked arm plunges its hand into the wheel and draws out a number which the president immediately reads, and thus makes known to the anxious public the debenture winning the prize.

Lottery, however, is a common practice in France. The bonds of the city of Paris and of many other public and private corporations are payable with prizes. The absence of this feature would probably lower the price of the debentures of the *Crédit Foncier* but it is difficult to determine the effect of its presence on account of the other opportunities open to the public to invest in bonds having similar attractions. Sir Frederick A. Nicholson contends that this lottery is not a gamble, because the company stands no chance of winning and the bondholders no risk of losing, since the debentures must always be paid at par and the prize or premium is calculated as a part of the cost of the money raised by their issue.

Other special privileges attach to the debentures of the *Crédit Foncier*. They cannot be seized by any legal process, nor may any suit be brought to stop the payment of their principal or interest except when they have been lost The company is not responsible for the regularity of endorsements on debentures and is legally discharged, as in the case of dividends on shares, by a payment of the interest to the holder who presents them They may be used as collateral by the Bank of France, or as investment for funds held in trust for non-competents and of municipalities, public institutions and corporations of public utility, in all

cases where these establishments are authorized to invest their funds in government bonds. Moreover, the courts have decided that they may be used also for the investment of all funds which are intended by agreement or understanding to be placed in real-estate mortgages. The interest rates are determined by the board of directors. Debentures may be issued below par but must be redeemed at least at par.

The debentures, however, enjoy no tax exemptions. Besides coming under the stamp acts and income-tax law as personal property, debentures made in the name of the owner or registered are subject to a tax of three-quarters of one per cent on transfers; and debentures payable to bearer are subject to an annual tax of one-quarter of one per cent, while eight per cent is levied by the state on prizes awarded at the drawings for redemptions.

The Crédit Foncier may use the internal revenue offices for making its remittances to holders of debentures and for receiving the dues of its borrowers. It may also deposit its funds in the national treasury and keep a current account there. Monthly and yearly reports must be submitted to the Minister of Finance on forms prepared by his office.

CHAPTER XIII

FRANCE· LAND CREDIT FOR AGRICULTURE

Sous-Comptoir des Entrepreneurs de Bâtiment—Subsidiary Company to Crédit Foncier.—Operations and Management—Applications for Credit—Long-term Credit—Statistics of Operations—Not the Intended Aid to Agriculture—Reason in Its Centralization.—Central Bank for Agricultural Loans—Long-term Loans to Associations through Crédit Agricole Mutuel—Long-term Loans to Individuals—Two Methods of Amortization.

MUCH private property was damaged or destroyed in Paris during the revolution of 1848, preceding the establishment of the Second Republic. The Government decided to help those who had been afflicted the most by public disorders. To this end it assisted in founding the building and loan company called the Sous-Comptoir des Entrepreneurs de Bâtiment.

At first the notes of the borrowers of this company were endorsed over to a bank called the Comptoir National d'Es-compte, which was authorized to discount notes with only two signatures. Such paper is not bankable in France unless especially authorized by law. In 1860 the Crédit Foncier was authorized to discount this paper and was substituted for this purpose for the Comptoir National. A contract made with the Sous-Comptoir des Entrepreneurs was approved by law. Now the latter concern is practically a subsidiary of the Crédit Foncier; its capital stock is \$1,000,000, and three-fourths of it is deposited as a guaranty fund with the Crédit Foncier upon interest equal to the average rate of discount on its notes.

The operations of this company cover everything relating to the building business and public works, and its function

is to procure for contractors, traders, and laborers therein, whether they be principals, sureties, or endorsers, the discounting of their negotiable paper, guaranteed by the sufficient number of signers or secured by real estate or pledges of personal property; but it can enter into no operation without the consent of the *Crédit Foncier*, and so has no control over the remaining one-fourth of its capital stock and reserves, while its inactive funds are kept on account current with the latter company.

The manager of the *Sous-Comptoir des Entrepreneurs* is appointed by the Minister of Finance. The by-laws adopted with the approval of the Government cannot be changed without its consent. The president and vice-presidents of the *Crédit Foncier* may attend the meetings of its board of directors and of the general assembly of stockholders.

The limit of credit is fixed by the *Crédit Foncier* and can never exceed twice the value of the issued shares of the *Crédit Foncier* and the sub-company's own capital stock. The *Crédit Foncier* undertakes to supply the *Sous-Comptoir des Entrepreneurs* with the necessary funds to carry on its business.

Every application for credit addressed to the *Sous-Comptoir des Entrepreneurs* is submitted to its board of directors. If favorably considered the board appoints a commission from among its members to make a report, upon which it determines the amount and length of the credit as well as all other conditions of the loan. If the applicant agrees to the terms and furnishes the guaranties required, his application, papers and plans, together with the report of the commission and the resolution of the board, are delivered to the *Crédit Foncier*, which in its turn approves or rejects the application. If it is approved, the *Crédit Foncier* draws up a contract which is signed by the applicant and a director of the *Sous-Comptoir des Entrepreneurs*. The only part of its business to which the *Crédit Foncier* extends its assistance is that connected with building operations and public works.

When any particular enterprise is accepted, the *Sous-Comptoir des Entrepreneurs* selects an architect to watch over

the work and to certify the progress made by the owner. Three days before each payment of the loan is due the borrower signs a note to its order payable in three months, which is endorsed by a director over to the Crédit Foncier. Two days thereafter the amount called for by the note, less the interest at the rate then allowed by the Crédit Foncier for mortgages, is given to the Sous-Comptoir des Entrepreneurs. Renewals are made from time to time at the same discount rate during the whole period agreed upon in the contract.

After the completion of the building, if the owner needs further credit he may obtain a long-term loan on mortgage. In this way, through its connection with the Sous-Comptoir des Entrepreneurs, the Crédit Foncier may extend credit to individuals without mortgage security, and also assist owners to build on unimproved lands, in spite of the provision of the law which forbids it to lend on property not having a durable and certain revenue.

In 1911 when its capital stock was not yet increased to its present figure and stood at \$40,000,000, the Crédit Foncier had outstanding \$461,060,057 of mortgage and \$409,357,156 of communal loans, or a total of \$870,417,213. The debentures in circulation against these securities amounted to \$785,639,948. The rate of interest for land loans was 4.30 per cent, for public establishments 4.10 per cent, and for departments and municipalities 3.85 per cent a year. One of the issues of land debentures yielded 2.80 per cent, another of land and several issues of communal debentures, 2.60 per cent; and the rest of the issues 3 per cent a year. The sums coming from mortgage and communal loans were \$2,986,976, making the total receipts from all sources \$6,436,429. Deductions and expenses left a net profit of \$2,654,476, out of which was paid a dividend of 6.40 per cent on the capital stock.

The deposits and current accounts on hand were \$16,762,173. The outstanding loans to the Sous-Comptoir des Entrepreneurs amounted to \$22,783,500, and in Algeria and Tunis to \$24,602,911. Over one half of the mortgage loans made by the Crédit Foncier since its foundation have been

on property in the city and suburbs of Paris. Loans between \$2,000 and \$10,000 are the most numerous; next to them are the loans of \$1,000 and under. As to length the most numerous loans are those of 60 and 75 years; next to them are the loans of 21 to 30 years. An average of twenty-two and a fraction loans are made in the cities to one in the country, which has received only one-fourth of the funds of the company used for mortgages. The doubtful claims on hand amounted to \$372,048, and the total value of properties acquired in foreclosure and not yet disposed of was \$1,848,807.

In 1913 the market price of the 3.5 per cent debentures was 97 4 per cent, and of the 3 per cent debentures, 90 6 per cent of their face value. Shares usually are sold at a price to net the purchaser between three and four per cent on his investment.

Originally the *Crédit Foncier* was authorized to lend only on real-estate mortgages in France. Its powers to make loans without mortgage to departments, municipalities, syndical associations, hospitals and public establishments, and in Algeria and Tunis, were added by successive laws and decrees, the first of which was promulgated eight years after its foundation. All the voluminous literature, official records and reports relating to the creation of this great land-credit institution show that the chief if not the sole purpose of the Government in bringing it into existence and in vesting it with special privileges was to aid agriculture. Its founders expressed similar intentions in a most emphatic way but the figures just quoted display a wide discrepancy between promise and performance.

The fact that its loans on urban properties and to municipalities comprise the larger part of its operations does not signify, however, that it has been of no use to agriculture. It is still the greatest single factor in France for affording easy credit to rural landowners. All persons owning large or medium-sized farms are welcomed by the *Crédit Foncier*, and the total of loans to agriculture is enormous. But the owners of small holdings are utterly ignored, and they con-

stitute the majority whose needs and resources surpass those of all others. The reasons for this shortcoming are natural and inherent. The *Crédit Foncier* lacks proximity to the farmers, without which, says Sir Frederick A. Nicholson, "there is no such thing as credit on any reasonable terms for small folk." The institution is highly centralized.

Decentralization was once planned for its business by establishing local boards for granting loans in all the departments into which the republic is divided. This movement ended in opening agencies in the big cities, which are now used, however, mostly for selling debentures and collecting dues. Loans continue to be granted only upon examination by inspectors and appraisers from headquarters. More applications are presented than can be allowed. Preference is given where trouble and expense may be saved, so the bulk of the loans go to the cities.

A central bank was created in 1860 as an annex to the *Crédit Foncier*, with the object of making agricultural loans throughout the country for short terms and in small amounts on personal security. It did not succeed because, as explained by the Minister of Agriculture, they began at the top and crowned the edifice before building a firm foundation of groups of local associations. The disastrous failure of this bank, the causes of which will be fully explained in another chapter, nearly forced the parent company into bankruptcy. Since that time the inability of the *Crédit Foncier* to render extensive service to small farmers has been so thoroughly recognized that the Government has never considered it in any of the plans proposed and adopted by the National Assembly for improving rural-credit facilities.

The long-term loans provided for by the law of 1906 are made from funds obtained by the state from the Bank of France and administered through a system of rural banks called the *Crédit Agricole Mutuel*, subject to the general control of the Ministry of Agriculture. This system and its relation to the Government and the Bank of France will be described hereafter. The total of the collective loans each year must not exceed one-third of the annual payment made

by the Bank of France to the state, and they can be made only to agricultural cooperative associations organized for the production, manufacturing or marketing of farm products. In the chapter describing the *Crédit Agricole* it will be found, however, that real estate security is not always required for the credit accorded to the cooperative associations under the law of 1906.

Under this law a regional bank may lend to such an association duly affiliated with a local bank of the *Crédit Agricole Mutuel* sums repayable within 25 years provided they be used for the purchase of real estate, for erecting buildings, or for installing or operating machinery therein. The interest is two per cent per annum; for a loan of \$1,000 at this rate to be amortized in 25 years, the annual dues would be \$51 22044. No association may receive a loan unless it is composed entirely of farmers and limits the maximum for its dividends to four per cent a year. The total of the loans must not exceed twice its paid-in capital stock.

The regional bank is held responsible for the loan and for its proper use. It may pay over the money only as the work for which it was advanced progresses. If the loan is made for the purchase or improvement of land, a first mortgage must be given to the bank, which has all the privileges provided by the law of 1852 for clearing the title of the property and for recovering its claims.

The long-term loans to individuals provided for by the law of 1910 also are made out of funds obtained from the Bank of France and administered through the *Crédit Agricole Mutuel* and land-credit associations organized outside of this system, conformably to a law of 1908.

The object of the law of 1908 is to aid workers to acquire small habitations or garden plots of less than 2.41 acres. The law of 1910 was enacted as a state measure practically in supplement to the laws making military service obligatory. All the able-bodied male population of France must serve a military term of three years. Over 200,000 young men, having completed their terms, are annually dropped from the ranks, many with inclinations to live in

cities or with habits of wandering, contracted during their service in the Army or Navy. The spirit of the law of 1910 is to assist young men wishing to become farmers to buy or improve small homesteads or clear them of encumbrances with the aid of the state.

Two-thirds of the funds coming to the state from the Bank of France may be used for these long-term loans to individuals. The state does not deal directly with individuals. It advances the money to the land-credit associations and to the regional banks, as intermediaries of the local banks, in the form of loans for 20 years without interest up to twice the amount of their capital stock. These concerns may employ the money only for the purpose for which it is intended.

A loan made by a local bank to a member must not exceed \$1,600 in amount or 15 years in duration. The interest must be at least two per cent a year, which is the rate at present. Two systems of amortization are allowed. In one the borrower repays the loan by annuities, in the other by instalments. Security is always required. If the borrower uses the loan to buy property he must give a first mortgage thereon. The banks have the privilege of the "purge" specified in the law of 1852 to clear the title. If the property is of such a nature that it cannot be mortgaged, that is, if the applicant formally declares it to be his homestead exempted from seizure for his debts, the bank must insist upon the endorsement of responsible persons or an insurance policy on the life of the borrower to protect its claims. By 1913 close to \$2,400,000 had been distributed by the state in these long-term loans for creating small rural homesteads.

Besides assisting farmers to acquire small homesteads, France has appropriated \$19,300,000 to be lent to laborers for building cheap urban dwellings. The distribution of this appropriation is intrusted to societies similar to building and loan associations called *sociétés de crédit immobilier*. Each society pays the state 2 per cent and charges borrowers between 2 and 3 per cent, the difference being used to cover expenses. At present the rates are 3 per cent for laborers

with two children, $2\frac{3}{4}$ per cent for laborers with three children, $2\frac{1}{2}$ per cent for laborers with four children, and $2\frac{1}{4}$ per cent for laborers with five children. A *société de crédit immobilier* will advance only four-fifths of the amount necessary to build the dwelling, and it requires all dwellings to be constructed upon lands and plans approved by its board of directors. The area must not exceed 2.47 acres, and the loan, which always must be secured by mortgage, may be repaid by annuities running from 20 to 30 years. By an act of 1912, amending the law of 1908 under which these public donations are made, the state aid that a society may receive depends upon its financial condition and may not surpass six-tenths of the value of the properties mortgaged to it.

The few societies in existence have been grouped since 1911 into a Union, which has general supervision over them and the right to inspect and to audit their accounts. Its reports are submitted to the Minister of Labor, who appoints a special commissioner to examine them and to determine the amount of aid to be granted by the state.

CHAPTER XIV

ITALY

Present Institutions—History of Land Credit.—Failures Due to Overlooking Farmers' Interests—Istituto Italiano di Credito Fondiario of 1891—Banks of Issue—Present Savings Banks—Land-credit Business Kept Separate—Loan Security—Interest.—Debentures—Payments—Capital Stock of Istituto Italiano.—Powers of Company—Emphyteusis—Agricultural Credit Given by Savings, Commercial and Cooperative Banks, the Monti Frumentarii, and Associations of Land Owners.

THE campaign for organizing land-credit in Italy, was started over half a century ago and it has not ended yet. The history of land credit in Italy is the worst of any European country and shows how easily hasty and defective legislation may lead to an inflation and collapse of credit. Eight laws were passed and 16 royal decrees promulgated within the first 20 years of the campaign. These enactments were inspired by the needs of agriculture but framed to include both the town and country. The last of them was placed on the statute book about the time when the larger Italian cities began to boom, and the new credit facilities were recklessly utilized in the wild craze which ensued to finance building projects, to the exclusion of rural betterment. The Government encouraged this boom for five years and then, reversing its course, set on foot investigations and strove to stem the tide, but too late to avert disaster. The state finally had to intervene to protect bondholders from the losses incurred through bad loans made by most of the banks which the state had empowered to do a land-credit business, and many years were required to straighten out this trouble.

The Italian system at present comprises a number of

benevolent or non-profit making institutions and one company, created by special acts or royal decrees but all operating under general laws. There is neither monopoly, special privilege nor state aid now, and in the free competition allowed interest rates have been so reduced that borrowers obtain money on as easy terms as landowners in any other nation. These institutions do not cover all Italy equally. They have not yet supplied the islands and the southern part of the country with adequate credit facilities, but year by year they have absorbed a larger proportion of the land indebtedness and they are able to extend their operations as rapidly as the intelligence and material needs of the farming class advance and develop.

In 1861, after various projects had been formulated and one launched without success, the Italian Government appointed a commission to study land credit. The commission advised that a company be established along French lines, with a state subsidy and a board of directors composed of nine Italian citizens and eight Frenchmen under a high officer of the *Crédit Foncier* of France. This recommendation was rejected. A second plan was presented on October 4, 1865, dividing Italy into northern, central and southern zones, and proposing a monopoly to an existing savings bank in each zone. But on November 21 of the same year a third plan, based on an agreement between the Government and five savings banks, was adopted, and in accordance therewith Italy enacted her first land-credit law in 1866.

The law gave to each of these five institutions the exclusive right to issue debentures against real-estate mortgages and loans to municipalities within its specified territory. In 1870, 1872, and 1873, three other savings banks were given the same right for their respective territories. The arrangement, however, was unsatisfactory. By the end of 1880 the banks had lent only \$48,354,994 of the \$1,302,480,000 of interest-bearing indebtedness which encumbered the land in Italy, although a law of 1873 had authorized the king to compel them to open branches so as to get in closer touch with landowners.

In 1881 these institutions held a conference the object of which was to have their territorial limits removed. This was accomplished in 1885 by the second law of importance respecting land credit in Italy. The law allowed the banks to operate throughout the kingdom but took away their monopolies. It authorized the organization or license of other banks provided each had a capital stock of \$2,000,000. Later on licenses were given to the Bank of the Tiber and the Bank of Italy. Associations of borrowers were also authorized, provided the properties of the members were worth \$1,000,000 and only half of this was used as cover for debentures. No association of borrowers, however, came into existence until 1911. In that year about 300 Sicilians formed the Landowners' Mutual Association to operate throughout the kingdom.

Other laws in 1885 authorized the banks to finance sanitation projects in cholera-stricken Naples, and in 1887 to make loans in several provinces to restore buildings damaged by earthquakes. The Government, in fact, seemed to consider that the chief object of these banks should be to extend help to large enterprises and to property owners in the cities, and it was bitterly accused of encouraging them in that direction. By this time their business had reached enormous proportions but the service rendered farmers and small landowners was insignificant. The average size of all loans was over \$10,000, and a large portion of them were in Rome, where the boom had been most active. The excuse for ignoring the farmers was that the banks found that they could not accord credit away from their immediate vicinities except in the capital city.

In 1887 one of the banks failed. By 1889 the price of debentures began to fall, owing to excessive issues and public distrust. An effort to create an outside market for them in France proved futile. No more money could be raised and the boom burst. Defaults in loans became frequent and the arrears of borrowers and unsalable properties taken in foreclosure tied up the funds of the banks. The Government then realized that something was wrong with the system.

The chief mistakes were that the farmers' interests had been overlooked, and that the banks had involved themselves too heavily in building operations in the large cities and had let their real-estate transactions become badly mixed with their banking business. In 1890 the Government, returning to the original idea, provided by its third important law for the creation of the Istituto Italiano di Credito Fondiario, a bond and mortgage company similar to the Crédit Foncier of France. When this company was chartered in 1891, all other banks were compelled to withdraw into their original territories, except two which were allowed to continue operation in Rome. The intention was to have the Istituto handle the loans in the cities and those of large landowners and to require the savings banks to devote their attention to small farmers in their respective neighborhoods. A commission was appointed to investigate the causes and extent of the troubles which had arisen.

In 1893 another bank failed. In the same year the mortgage laws were reformed by the fourth law of importance and the three banks of issue which had been acting as land banks were ordered to close up their land-credit business. The disappearance of these four banks left large areas of Italy without land-credit facilities. Hence, on August 5, 1895, the law of 1885 was amended to allow land-credit companies to be organized with only \$400,000 of capital. This amendment brought no results, and in November all existing banks were empowered to make loans in the areas abandoned by the four banks just mentioned.

In 1896 by another law territorial restrictions were completely removed, and all banks duly licensed were again allowed to operate throughout the kingdom. Banks of issue, however, were forbidden forever to extend land credit. The investigation showed that those which had done so did not properly segregate their real-estate transactions from their banking business, and that they had frequently entered into agreements with building contractors, discounted their notes or given them drawing accounts, with the object of sharing in the profits and in the hope of strengthening the security

for their loans when the building operations they had thus financed were finished.

The six banks of issue in Italy, of which three had been licensed to grant land credit, had immobilized \$59,940,000 of their assets within the comparatively short period of their operations. They committed the errors which the *Crédit Foncier* of France avoided through its connections with a subsidiary company, the *Sous-Comptoir des Entrepreneurs de Bâtiment*. To save the country from the consequences of these errors the state had to guarantee the payment of the debentures of one of the largest banks, on terms, however, which the holders were forced to accept.

These laws were codified in 1905. At present there are five savings banks, one company connected with a savings bank, one landowners' association, and one joint-stock company operating under this code, while all institutions or societies authorized to issue debentures against real-estate loans are subject to its provisions and amendments unless specially excepted. These savings banks, which are very old, were created for some object of charity or public utility by funds donated by the Government or by philanthropists. Their original purpose and spirit have been maintained, and any profits gained are used to increase these funds or reserves. Four of them make loans throughout the kingdom. The fifth restricts itself to the province in which it is located.

The oldest of these benevolent institutions is in Siena. In 1500 Siena, then a republic, granted to some Jewish capitalists, their heirs and assigns, the right to make loans on pledge or mortgage throughout its territory. The concession was misused, so in 1569 an old charitable establishment founded in 1471 was revived by the Government to combat the Jews. This concern did not bring the expected relief because it confined its business entirely to taking pledges. Thereafter a special mortgage bank was created by the Government with a capital composed of shares of one hundred scudi (\$93). The capital not being raised by private subscription to the required amount, the Grand Duke Ferdinand II of Tuscany completely reorganized the bank, ad-

vanced to it 200,000 scudi on the guaranty of the commune, and renamed it Monte dei Paschi, or the bank for the pasture lands of Siena. This public savings bank of Siena now has many branches outside of that locality, and besides receiving the deposits of the poor, extends short- and long-time credit in small and large amounts, and does an accident insurance business for workmen.

Following this bank in chronological order is the Pious Works of Saint Paul of Turin, created by the absorption of various funds and the consolidation of a number of concerns of a charitable nature, some of which were established in 1562. It was reorganized by royal decree in 1852, and its board of directors is now composed of 24 members, one half of whom are appointed by the city of Turin and one half by the Minister of the Interior. The board manages these combined funds but keeps a separate account for each.

The next in point of age is the Savings Bank of Milan, founded in 1825 by a special tax levied upon real estate in Lombardy. This tax was collected between 1815 and 1817 to aid poor people who had suffered from a drouth which destroyed the crops just before that period. The unpended portion was turned over to this bank. At first it made only mortgage loans but now does all kinds of commercial banking, while its deposit business is one of the largest in Italy.

The other two are the Savings Bank of Bologna and the Savings Bank of Verona. The former has a joint-stock form of organization but its stockholders receive no dividends. The latter was founded in 1900 with certain endowment funds for the Venetian provinces and Mantua. Besides these five institutions, the Land Credit Company of Sardinia was organized as a corporation in 1898 by the shareholders of the Savings Bank of Cagliari.

The land-credit business of these charitable and public savings banks is carried on in special sections so as to segregate it from all other affairs. Each section generally is managed by a board of directors and a committee of supervision composed of six members, of whom one is an officer of the

bank, one a representative of the provincial council, one a representative of the city council and one a representative from the local chamber of commerce. The other two are auditors appointed by the bank.

Reserves are compulsory. If the bank is a joint-stock company, it must set aside one-fourth of its net annual profits until the reserve equals at least one-fifth of the paid-in capital. If it has no capital stock, the reserve must accumulate until it reaches, together with any guaranty fund, one-tenth of its debentures in circulation. The reserves must be invested in bonds of the Government or of other land-credit institutions. Supervision is exercised by the Minister of Agriculture, Industry and Commerce, who has the right of inspection, and the authority to prescribe rules for the conduct of business.

Loans of the savings banks must be secured by first mortgages on real property worth at least double their amount and yielding a durable and certain revenue. The restrictions regarding the kinds of property allowed for security are similar to those in the French law. If the money for a loan comes out of the capital stock or funds actually belonging to the savings banks, the loan contract may provide for repayment in lump. If it comes from the issue and sale of debentures, the loan must be made repayable only by annuities, unless the period of the credit is under ten years, when it may be made repayable in yearly or half-yearly instalments or otherwise. The longest period allowed is 50 years.

The interest rate on a loan must equal that of the debentures issued against it, and is determined by the bank. In addition to the interest, annuity or instalment, the borrower may be required to pay 0.45 per cent of the principal each year for the expenses of business and a further 0.15 or 0.10 per cent as a government tax, together with all costs of the loan. The interest and annuity must be paid in cash. The loan may be prepaid in whole or in part and debentures used for this purpose, but the contribution towards the expense of business and the government tax continue on the full amount of the loan until its complete extinction.

The savings bank frequently extend credit for periods of a few years on running accounts up to specified amounts in a way that requires the borrower to pay interest only on the balance due instead of upon the full face value of the mortgage given as security. Such loans, as well as loans out of the banks' own funds, may be made in cash, but in all other cases the bank simply exchanges its debentures for the borrower's mortgage and, unless it does the selling for him, the borrower sells them himself and must suffer the loss if the sale be at less than par.

The denominations of these debentures are \$20 or more, bearing three and one-half, four, four and one-half and five per cent interest per annum or maximum allowed, and may be made payable to bearer or otherwise. Interest coupons are always paid to bearer. The debentures of each rate constitute a separate series but all are equally secured by the mass of mortgages taken and the guaranty funds accumulated by the bank. The borrower has the right to select the series he wishes for his loan and to repay it in debentures of the same kind. Debentures are callable at the will of the bank, but it must retire semi-annually by lot debentures equal to the amount of the cash in the sinking fund or due to it.

All payments on the principal of loans and the proceeds from foreclosure sales go into this fund. It is debited with all defaults of borrowers. The bank must supply any arrearage from its own funds or capital stock. Consequently no dead loans can be used as cover for debentures. Each half-year the drawing is continued until the total face value of the debentures retired equals the amount of the items under these three heads, and thus an exact equilibrium is always maintained between the debentures in circulation and loans outstanding. Beyond this regulation no limit is set to the amount of debentures which a savings bank may issue against loans, unless it be a joint-stock company, in which case it cannot be in excess of ten times the capital stock. It will thus be seen that the method of operation of the German *landschafts* has been adopted for these old benevolent Italian savings banks; they do not aim to make a profit out of the borrowers.

The interest, annuities or principal of loans when due to a bank cannot be stayed nor delayed by any legal proceeding. Its mortgages do not have to be refiled every 20 years to keep them alive as under the civil code. The public recorder must perform this service for it free of cost until the end of the credit period. The bank may declare all the principal of a loan to be due if there is default in the interest or annuity. It may recover arrears of an annuity out of the borrower's personal property by the same process employed by the state for collecting unpaid taxes, and may resort to summary proceedings for foreclosure and sale. Its debentures may be received in pledge as security for loans up to four-fifths their market value by other land-credit banks, or by any credit establishments or the National Bank for the same purpose up to the limit prescribed in their by-laws. Moreover, the debentures are lawful investments for the funds of cities, provinces and the state, and of charitable institutions, savings banks, and public loan offices, up to nine-tenths of their market value. They are exempt from levy and sale on execution. They are also free from taxes on personal property when the bank charges them against the borrower. This prevents double taxation.

The law of 1890 under which the Istituto Italiano di Credito Fondiario (Land Credit Company of Italy) was organized in 1891 is a special act. Its object was to create a large central institution by stock subscriptions and absorption of the mortgage business of the then existing banks. For this purpose it was granted an exclusive monopoly to operate throughout the kingdom for 15 years, while the banks, as already stated, were compelled to stop making loans outside their respective original territories. This monopoly, however, was taken away in 1894.

The capital stock of this company is \$20,000,000, of which \$8,000,000 has been paid in. The National Bank of Italy contributed \$2,000,000 of mortgages and \$1,000,000 in cash towards its foundation; the rest was subscribed by Italian citizens and foreigners. The capital stock, reserves and guaranty fund must all be invested in mortgages. Five

per cent of the net profits must go into the reserve until it equals one-fifth of the paid-in capital; from the remainder a dividend of six per cent may be declared to shareholders. One-fourth of the balance goes to the state, one-fourth to the reserve until it reaches the statutory amount, and the rest is disposed of as the shareholders may decide at the annual meeting

The sole powers of the company are to grant land credit and to issue and negotiate debentures to finance its operations up to ten times the amount of its paid-in capital. The loans are made in cash, but the interest rate must be the same as that of the debentures which were issued for raising the money loaned. The debentures are issued *en bloc* and not as each loan is granted; for example, after the company has made \$1,000,000 of loans out of its capital stock, it may issue debentures for that amount. The profits come from commissions, which are fixed by the company itself. This right is allowed all land-credit institutions when the loan is made in cash and not in debentures, and each has a printed schedule of such commissions. The Istituto is supervised by the Minister of Agriculture, Commerce and Industry, and enjoys no privileges beyond those laid down in the general laws

The lowest rate of interest on loans made by the institutions forming the land-credit system is about 4.41 per cent. The average is perhaps 5 per cent, after taking into account all costs, charges, and losses on debentures sold below par when loans are made in debentures. The rate is tending to increase, however, and some of the institutions are now issuing debentures only at the highest interest rates allowed and are calling in those of lower rates. This is due to the fact that money is becoming dearer in Italy. The 3.5 per cent debentures of all the institutions are quoted at par and are as acceptable to the investing public as government bonds. The loans are usually for very long terms. Most of the loans of the Istituto run for 45 to 50 years. The annuity for the latter period is 6.10 per cent. A fair proportion of the business of all the institutions is rural. They

held in 1912 \$733,246,124 of the \$1,302,480,451 of existing interest-bearing land indebtedness in Italy.

Much of the land in Italy owned in large tracts by private individuals or corporations is occupied under a right called "emphyteusis." This is a grant of the possession and use, subject to the keeping of the land in cultivation and from depreciation and to the payment of a fixed annual rent either in cash or kind. This grant or lease is usually for a very long term and may be perpetual. It is inheritable and may be sublet upon certain conditions, but the occupants, of course, cannot sell or mortgage the land. There are hundreds of thousands of such occupants besides ordinary tenants, and they are unable to obtain loans from the land-credit institutions by reason of this lack of title.

This situation was remedied by the law of 1887, which declared that growing crops, stored produce, live stock, implements and buildings, which up to that time were legally a part of the land, should be considered as movable fixtures to the extent that tenants by emphyteusis or ordinary lease could mortgage them for certain purposes to any institution duly authorized to accord agricultural credit. The mortgage thus made is a lien on the property, subject to the landlord's or landowner's right to the rent for the current year and the two years before and the one thereafter. If the land is increased in value as a result of the credit extended, the lien has precedence, to the amount of the increase, over all claims of the landlord or mortgages made by him though prior in point of time. The lien expires unless renewed every three years.

The institutions which may be authorized to accord agricultural credit are savings, commercial and cooperative banks, the Monti Frumentarii (public granaries), and associations of landowners the aggregate value of whose estates is \$600,000 or over. These institutions may have renewals filed and recorded free of charge, while other fees of the recorders and notaries as well as stamp duties are reduced on their business to one-half of the legal rate. They also may resort to the special processes against delinquent borrowers enjoyed

by land banks. These privileges are allowed and the tenants' mortgages are valid only when the loans are made for building farm homes, barns, fences and storehouses, for drainage, irrigation and digging wells, for planting vines and fruit trees, for dyking and opening watercourses, constructing roads and preparing land for cultivation, and for such other objects as the Agricultural Council of the nation may declare to be proper. The loans must be made in cash as the work for which they were obtained progresses. A misuse of the money renders the principal due. The rate of interest must not exceed a maximum fixed by the Ministers of the Treasury and of Agriculture, Commerce and Industry. The term cannot be less than three nor more than 30 years, and repayment must be by instalments or annuities.

When an institution has been duly authorized to accord agricultural credit, it may do business with small landowners and cooperative societies as well as with tenants. After it has employed one half of its own capital or fund specially set aside for the purpose in making these agricultural loans, it may issue debentures to raise further money for carrying on its operations. The face value of the debentures in circulation at any one time must never exceed five times its capital or the amount of the outstanding loans. The debentures are of two kinds, printed in different colors. Those issued against mortgages of tenants must have a fixed date of maturity, while those issued against mortgages of landowners and obligations of cooperative societies are indeterminate in duration and are retired by purchase or by drawing lots every half year to an amount equal to that paid off on the loans. Both may be made payable to bearer, the first in denominations of \$20, the second in denominations of \$40. The Ministry of Agriculture, Commerce and Industry supervises all the institutions through the Agricultural Council.

Licenses under this law have been taken out by many savings banks and cooperative associations, and also by some of the agricultural banks (notably in Sardinia and the Basilicata) which have been set up by the Government with the aid of public funds in central, southern, and insular Italy.

CHAPTER XV

SMALL HOLDINGS IN GREAT BRITAIN AND IRELAND

Act of 1908 Enables Government to Take Private Land—Land Leased in Small Holdings—County Councils in Charge of Leasing—Procedure—Formation of Cooperative Associations—Land Court of Scotland.—Land Holders and Small Holders—Work of Scotch Board of Agriculture—Four Official Bodies in Ireland—Large Loans of Board of Works.—Congested Districts Board in West of Ireland—Irish Department of Agriculture and Technical Instruction—Credit of State Extended by Estate Commissioners for Acquiring Real Estate—Progress of Work—History of Land-purchase Legislation.—Acts Administered by Board of Agriculture and Fisheries.

THE Small Holdings and Allotments Act of 1908 enables the Government of Great Britain, through the proper authorities and subject to certain conditions, to take all the land which any individual owns in England and Wales in excess of 50 acres and to sell or lease it to a farmer or laborer. This measure is so drastic that many believe that it is the preliminary step to the complete nationalization of all lands in the United Kingdom. Several members of the peerage have already made arrangements to dispose of vast ancestral estates and convert them into cash, in order to avoid the loss which might result from a drop in real-estate values if the Government should become more socialistic and go extensively into the business of acquiring land for sale or lease to the have-nots on cheap and easy terms.

Allotments are plots not exceeding one acre. They are acquired for leasing to agricultural laborers. Small holdings are parcels of agricultural land of more than one acre and not more than 50 acres, or, if exceeding 50 acres, the annual

return of which as estimated for the income tax is not in excess of \$250

The county councils are charged with the duty of providing such small holdings for persons who desire to buy or lease and will themselves cultivate the holdings. Two commissioners with expert and practical knowledge of agriculture have been appointed by the Board of Agriculture and Fisheries, under the law, to ascertain the extent to which there is a demand for small holdings or would be if suitable lands were available, and to confer with the county councils to devise plans to satisfy such a demand. If a county council ignores the recommendations of these commissioners or the request of six citizens, the Board may compel it to act, under penalty of paying the costs resulting from its neglect. All plans for the acquisition of lands, whether made by the councils or by the commissioners, must be passed upon by the Board, and the expense thus incurred is paid out of a fund provided by Parliament, if it cannot be otherwise recovered.

Lands acquired for small holdings by a county may be situated within or without its borders. A county may join one or more other counties in arranging a plan. If it cannot acquire suitable lands by agreement with the owners, the council after due notice may order the desired or needed land to be compulsorily sold or leased. The order becomes effective upon confirmation by the Board of Agriculture and Fisheries. In case objections are raised the points in dispute are settled by an arbitrator appointed by the Board, who is allowed to hear neither lawyer nor expert witness unless otherwise directed. Parks, public grounds, lands used for public utility or for the convenience or comfort of a dwelling house or farm home, or which are under 50 acres in extent, cannot be taken by this procedure for the purpose of creating small holdings. If the order specifies that the land shall be acquired compulsorily on lease from the owner, the period must be not less than 14 or more than 35 years.

After a county has bought or leased the land it desires or needs, either by agreement or by compulsion, it may adapt it for small holdings by subdividing and fencing, by making

roads, drainage or irrigation ditches, and by putting up such buildings as may be necessary to make it suitable for occupancy. The total cost of the acquisition and improvement of the tract must be so distributed that each small holding created out of it shall bear its proportionate share. But no county may incur any expense or obligation in carrying out its plans which would raise the annual tax rate more than a penny in the pound.

As soon as the tract has been cut up into small holdings and each duly registered, the county must proceed to dispose of it. The conditions of tenure are that the occupier of each holding shall keep it in a good state of cultivation, and will not allow intoxicating liquors to be sold or more than one dwelling house to be erected thereon. The holdings may be sold in fee if the county bought the tract by agreement but if the tract was acquired on lease or by compulsory sale, only subleases not to exceed 35 years are lawful. The sale or sublease may be to individuals, or to groups of individuals working on a cooperative basis, or to associations formed for the creation and development of small holdings and so organized that profits are prohibited or restricted. The purchase prices or rents must be fixed sufficiently high to guard the county against loss.

For each small holding sold outright by the county, the purchaser must pay not less than one-fifth of the price in cash; one-fourth may be secured by a perpetual rent-charge redeemable in the manner provided by the English laws, and the balance may be secured by mortgage, to be paid off half-yearly in instalments of principal and interest or by a terminable annuity. The longest credit which a county may allow on such a sale is 50 years. The borrower may discharge his debt in advance, or he may be accorded a renewal not exceeding five years.

Each county is required by the law to appoint and maintain a committee consisting in whole or in part of members of the council to attend to all matters relating to small holdings. One of the objects of the committee is to promote the formation of cooperative associations among the occupiers

of the holdings, for banking, insurance and all agricultural purposes. Counties may make grants or advances to such associations or guarantee advances made to them. The county may also assist any individual tenant to buy a farm of the size of a small holding, situated within its borders, by lending on mortgage four-fifths of the purchase price agreed upon with the landlord.

There are 8,300 county councils and local authorities in England and Wales to which the Small Holdings and Allotments Act applies, but up to 1913 only 2,000 had taken advantage of it. These had acquired 154,977 acres, of which about two-thirds was purchased and the rest held on lease. Only a small portion had been resold. The great majority of the small holders are sublessees. The amount which has been borrowed by the counties for the purchase and adaptation of these lands exceeds \$12,250,000.

In Scotland, since 1912, the relations between small tenants and owners of agricultural lands may be established by judicial proceedings instead of by private contract, if either of the parties so desires. For this purpose a law of 1911 created a special Land Court, composed of five members appointed by the Crown upon recommendation of the Secretary for Scotland, and a Board of Agriculture, composed of a chairman and two commissioners also appointed by the Crown upon recommendation of the Secretary for Scotland.

A small tenant is one with a holding the annual rental of which does not exceed \$250 or, if exceeding that rental, is not over 50 acres in area. Such a tenant under the Scottish law may be either a landholder or a small holder. A tenant is designated as a landholder if he or his predecessors in the same family erected the buildings and made the other improvements or the larger part thereof on the holding with their own money and labor; and as a small holder if the larger portion of the money and labor therefor were furnished by the landlord.

A landholder who was such at the time the law of 1911 was enacted has the right to perpetual occupancy of his holding. Should the tenure be cancelled for any reason, he

must be compensated for the buildings and improvements, and all his rights descend to his heirs or to that member of his family to whom he wills them. A small holder, of course, has no interest in the buildings and improvements, but he has the right to continuous renewals of his lease on the terms in force at the time the law was enacted, and the right passes to his heirs or may be willed to any of them. If the landlord allows the improvements or buildings to get out of repair, the small holder may be declared a landholder.

All matters in dispute between landlords and landholders and small holders are determined by the Land Court, whose decision is final as regards the facts. Questions of law may be carried to the Court of Sessions, without further appeal to the House of Lords. But the Land Court has exclusive jurisdiction over the rents; it may raise or lower them to whatever figure it deems fair and the landlord must abide by its decisions. The case for the tenants is attended to by the Scotch Board of Agriculture, which selects one of its members as a special commissioner for small holdings for this purpose.

The Scotch Board of Agriculture is charged with the general duties indicated by its name. In addition to adjusting the rights of tenants on lands occupied at the time the law of 1911 was enacted, the Board is empowered to enlarge small holdings and to acquire estates for subdivision and allotment to small holders. If the land desired cannot be obtained by contract the Board may acquire it compulsorily by proceedings before the Land Court. But it cannot entirely expropriate the owner or divest him of his title, as is permitted in England and Ireland. All the Scotch Board can do is to compel the owner to turn over his estate to be prepared and subdivided for small holdings, and to accept as tenants those persons to whom it allots the holdings at the rents determined by the Land Court.

The Government has appropriated about \$1,000,000 a year to be used by the Scotch Board of Agriculture for carrying on its work. This fund is expended in preparing and allotting estates for small holdings; it may be employed also

in making loans to public authorities for that purpose, or to small holders for erecting buildings and fences. To public authorities the Board advances no more than three-fourths of the expense. Loans made to individuals for erecting buildings are repayable within 50 years by instalments at the rate of one dollar per annum for every \$25 borrowed. This includes interest, payment for amortization of the principal, and the premium on insurance. Loans granted for fencing are repayable within seven years. A mortgage upon the entire right of the tenant in the holding is taken as security.

The procedure for enlarging a small holding is similar to that for acquiring estates for subdivision, except that no compulsory step may be taken against the owner, nor can the tenant request the services of the Board until he has first applied to his landlord and been refused. No small holding obtained through intervention of the state in Scotland may be mortgaged or sold by the occupier.

In Ireland, long-term loans, besides free grants, are made by the state for agricultural purposes, through four official bodies, the Board of Public Works, the Congested Districts Board, the Department of Agriculture and Technical Instruction, and the Estates Commissioners. The loans are usually secured by a charge or mortgage on real estate, but in some cases personal security may be taken or no security at all may be required.

The Board of Works was established in 1831. During its long career it has advanced large amounts to farmers for the purposes which it was organized to promote, namely, drainage, subsoiling, trenching or otherwise deepening or improving the soil, irrigation and warping, embanking from rivers and tidal waters, building and repairing fences, making farm roads, clearing away rocks and stones, reclaiming wastes, planting trees, erecting or improving farm offices, farm dwellings and laborers' cottages, and the erection of mills for scutching flax and the construction of dams, weirs and watercourses for supplying them with water.

Borrowers may be landowners or tenants: if tenants of leaseholds, the annual value of their holdings must be over

\$58; if tenant-purchasers, it must be over \$34. Tenants from year to year, that is, the most necessitous class, cannot be aided by the Board of Works. Loans to landowners must be for sums not less than \$500, except for erecting farm buildings, when they may be for \$250. In the case of tenant-purchasers, loans must not exceed five times the annual value of the holdings. In the case of tenant-occupiers, no loan may be granted for less than \$175 or for more than \$5,000. In ordinary circumstances a loan will not be granted to such occupiers for a greater sum than three times the annual value of the land. A mortgage on the land to be improved is always required as security for a loan from the Board. The money is advanced as the work progresses in sums equivalent to the amount proved by the borrower to have been expended on the land. Repayment is usually by an annuity of 6.5 per cent running for 22 years. In 1913 about \$530,450 was advanced by the Board of Works, of which 97 per cent was for the erection of farm buildings and cottages.

The Congested Districts Board was established in 1891 for the purpose of dealing with the special economic problems of the poor western districts of Ireland. The Board possesses wide powers and discretion for taking such steps as it deems proper for aiding migrants, or emigrants from congested districts, increasing the size of holdings, and developing agriculture by improving the breed of live stock and methods of cultivation, by both direct and indirect means. The Board has been left practically unfettered by law as to the method of expending the appropriations intrusted to it, which now amount to \$1,124,162 annually. Of this amount \$100,000 is disposed of each year in free non-repayable advances, and the rest is employed largely in purchasing and improving real estate for subdivision and resale. The credit operations of the Board are insignificant, amounting to only \$29,866 in 1912.

The Irish Department of Agriculture and Technical Instruction upon its establishment in 1899 took over some of the functions of the Congested Districts Board, and will eventually replace it in all agricultural affairs. The Depart-

ment may make loans to individuals for any agricultural purpose. The total amount loaned in 1913 was \$58,705. Nearly one half went for the purchase of bulls; the remainder was loaned for fencing, the purchase of farm implements and stallions, and the financing of agricultural cooperative credit societies. The Department has advanced \$535,000 to date, but very little of it was in the form of loans secured by real estate. The only instances in which real-estate security has been taken have been loans for the erection of village halls and for equipping and repairing mills for scutching flax.

The Estates Commissioners, who number three, appointed for life by the Crown and charged with carrying out the provisions of the Land Purchase Acts, is the greatest body not only in Ireland but in the world for using the aid and credit of the state for the purpose of enabling farmers to acquire real estate. The Estates Commissioners have power to sanction the expenditure of public funds not only on works for the improvement of land and the erection of buildings but also in the purchase of livestock, seed and farm implements. These expenditures, however, are all confined to the lands purchased by the Estates Commissioners for resale to peasants. The prime purpose of the Estates Commissioners is to bring about by agreement or compulsion the transfer of the ownership of the land in Ireland from the large proprietors to the peasants who occupy and cultivate it. Already they have effected a change of title to two-thirds of the agricultural land, committing the British Government to obligations amounting to hundreds of millions of dollars.

Four-fifths of the inhabitants of Ireland are farmers or engaged in agricultural pursuits. Practically all farmers are now owners of the farms they till or else are occupying them at fair rents judicially fixed. None of these farms is over 30 acres in area, while the majority are under 15 acres with many ranging between one and five acres. The long struggle of the Irish tenants against their landlords is ended, and the bitter hatred engendered by generations of oppression and reactive violence is being forgotten.

The land-purchase legislation, to which this betterment

of rural conditions and content are due, comprises a series of acts covering a long period of years. In 1869 the Irish Church Act enabled occupiers to buy glebe lands, the state advancing three-fourths of the purchase price to be repaid by an annuity of four per cent in 32 years. The act of 1870, giving the tenant the right to dispose of his interest and to receive compensation for his improvements, contained clauses which authorized the Government to promote land purchase by advancing two-thirds of the purchase price to be repaid by an annuity of five per cent in 35 years. These, however, were sporadic attempts inadequately financed, and only 6,750 tenants acquired title to their holdings thereby.

A clearly defined policy of a national character in respect to the land was not adopted for Ireland by the British Government until 1881. In that year Gladstone made a bold effort to adjust matters on an equitable basis by the Land Law (Ireland) Act, giving the tenants the right to have their rents fixed judicially and refixed every 15 years and to sell their holdings if they so desired. The Government undertook also to advance three-fourths of the purchase price or one-half of the "fine" to acquire a "fee farm" tenure to tenants who were able to acquire their holdings by agreement with their landlords. A Land Commission was appointed to carry out this measure. In 1885 the Land Commission was empowered to advance the entire purchase price provided a deposit was made to guarantee the payment of the first one-fifth, and \$25,000,000 was appropriated for loans to tenants. In 1891 the Government began to issue "guaranteed land stock" for making these purchases. This stock bore $2\frac{3}{4}$ per cent interest per annum, but the Treasury was authorized to issue $2\frac{1}{2}$ per cent stock as soon as \$50,000,000 of the first kind had been issued. An annuity of four per cent for 49 years was required from the purchasing tenant. One-fourth of one per cent of the annuity went into a guarantee fund which was allotted among the various counties. Advances for purchasing holdings in any county were limited to 25 times its share in the guarantee fund. If defaults in the payment of annuities could not be covered by this fund, the deficiency was

made good by a levy on the counties. In 1896 a number of amendments to the law were made respecting the fixing of rents, while the method of calculating the annuity was changed. The one-fourth of one per cent set aside for creating the guarantee fund was applied to the reduction of the tenant's debt, and an extra percentage which the tenants had been required to pay on the 49-year loans for the first five years as an insurance against defaults was altogether abolished.

By virtue of the operation of these laws, a large portion of the land in Ireland by 1903 had passed over to the tenants or was held by them at fixed fair rents. The landlords, realizing that their absolute tenure was doomed, were beginning to prefer to sell their estates to remaining mere pensioners or receivers of rent at rates to which they were forced to consent. The tenants, on the other hand, were discontented wherever they could not acquire complete control, and in that year the Irish Land Act was enacted to put the finishing touches on the Irish land-purchase legislation. This act reconstructed the Land Commission and provided for the establishment of the Estates Commission, placing \$500,000,000 at its disposal for making loans to tenants, in addition to giving \$60,000,000 as a free grant to enable tenants to pay the first one-fourth of the purchase price which was required to be paid in cash. The Estates Commission is empowered to acquire lands compulsorily when offers made by it are refused, and also on request by the Congested Districts Board when that body is unable to acquire by agreement the land desired. In 1909 the annuity of the purchasing tenants was fixed at $3\frac{1}{2}$ per cent per annum, and the period for the extinction of the loans was extended from 49 to $68\frac{1}{2}$ years.

The number of agricultural holdings in Ireland was found by the census of 1911 to be 535,675. Up to March, 1913, applications to have "fair rents" fixed had been allowed for 455,000 of these holdings. As regards sales, if one person be reckoned for every loan, over 240,000 occupiers have been made owners in fee, under the laws, of over 8,000,000 acres of good agricultural lands. Including the bonds which have

been issued, the sums guaranteed, advanced or promised by the state amount to \$622,404,180. This stupendous amount will have to be increased to over one billion dollars if the plans which have been devised to make all Irish tenants the actual owners of the lands they occupy are carried to completion. The state's credit has been pledged on all land stock or bonds which have been issued, but as only a few defaults have been made by borrowers, it has not suffered much loss.

Besides the laws enumerated, the aid and credit of the state for land improvement in Great Britain and Ireland have been pledged by a number of acts which date back many years, the administration of which is now entrusted to the Board of Agriculture and Fisheries. The earliest of these land-improvement acts were those passed between the years 1846 and 1856 for appropriating and lending public moneys to facilitate works of drainage on the security of the lands benefited thereby. The Act of 1846 empowered the Treasury, on application of the Inclosure Commissioners (now the Board of Agriculture and Fisheries), to advance for such works sums not exceeding \$10,000,000 in Great Britain and \$5,000,000 in Ireland. Further advances to the amount of \$10,000,000 for Great Britain and \$1,000,000 for Ireland were made by the act of 1850. The landowner who applied for a loan under these acts had to file with his application a description of the land, the muniments of title, a plan of the proposed works, and an estimate of their cost. If approved by the Commissioners, a provisional certificate was issued to the landowner declaring that when the works had been properly executed, the necessary sum would be advanced for the cost of the works and incidental expenses. Then, if no one having any estate in or charge on the land presented a valid dissent, when the commissioners were satisfied that the works were duly carried out, they issued a final certificate and an order for granting the loan. After the money had been turned over, the land became charged with the payment to the Crown of a rent charge at a rate sufficient to extinguish the debt at the end of 22 years. These acts required that the

works should be capable of being finished within five years, and limited the advances to any one landowner to \$25,000. The landowner could assign his certificate to any person agreeing to advance the money, and the latter was entitled to receive the advance from the Treasury. Money borrowed from other persons or by the landowner himself could be made a charge on the lands improved, while the works and the lien for them could be extended over adjacent lands for making outfalls and opening drains and watercourses. All appropriations under these acts have been exhausted.

These acts provided also for the incorporation of the General Land Drainage and Improvement Company for England and Wales; the Lands Improvement Company for England, Wales and Scotland; the Scottish Drainage and Improvement Company, for Scotland alone; and the Land Loan and Enfranchisement Company for England, Wales, Scotland and Ireland. The organization, objects and powers of these companies for their respective territories are substantially the same. They were empowered to make loans for drainage, irrigation, embanking, enclosing and reclaiming, the making of farm roads, and the construction of farm buildings, mills, and hydraulic works for farm purposes and cultivation. They were given as security for their loans a charge imposed by law on the lands so improved, which for the company first mentioned might run for 31 years for buildings and 50 years for other improvements, for the other companies the period might not exceed 40 years.

In 1864 these acts were consolidated and so amended as to enable landowners of limited interests to charge their lands with money subscribed for the construction of railways and canals. Such a landowner desirous of borrowing or advancing money, according to the amended act, must file his application in the usual way, showing that the use of the money so subscribed will permanently increase the value of his lands. If approved by the Board a provisional order is issued which names the landowner, the maximum sum to be charged, the rate of interest, not to exceed five per cent, and the term for repayment, which may not exceed 40 years.

The order becomes final upon completion of the works, and the landowner may assign the charge created thereby either absolutely or by way of security to one of the improvement companies or to any one who may agree to advance the money subscribed towards the building of the railway or canal or for any of the other authorized improvements. The order creating the charge is never granted unless it be shown that the improvements will effect a permanent increase in the yearly value of the land exceeding the annuity or amount proposed to be charged on it. This requirement as to increased yearly value does not apply, however, in the case of loans for promoting cultivation. The Board may extend the period of repayment of improvement charges in certain cases not sooner than seven and not later than ten years from the date of the order creating the charge.

The improvements mentioned by the early laws were all of an agricultural character, but the list has been extended by recent acts so as to include the building of laborers' cottages, mansion houses, and various other objects not agricultural. The total of the amounts raised on the security of charges created by these acts amounted in 1910 to \$91,938,594.

CHAPTER XVI

AUSTRIA-HUNGARY, RUSSIA, AND THE BALKAN STATES

Provincial Mortgage Institutions of Austria—Their Loans—History of These Institutions—Land Credit in Hungary—Hungarian Boden-Kredit Institut—Administration—National Land Credit Institute for Small Holders—National Federation of Hungarian Land Credit Institutions—Land Credit Institute at Nagy-Szeben—Large Russian Projects—Colonization of Siberia—Peasant's State Land Bank—Distribution of Land to Emancipated Serfs—Operations of the Bank—Work of the Land Commissioners—Aid for Home Colonization in Finland—Rural Banks of Communes—Mortgage Society of Finland—Territorial Credit in Livonia, Esthonia, and Courland—Government Confiscation of Nobility's Estates in Roumania—Landschaft System and Rural Bank—Bond and Mortgage Institution of Servia.

THERE are provincial mortgage institutions in all but two of the crown provinces of Austria. These concerns have neither capital stock, shareholders, nor members. They are simply bureaus or departments in the provincial administrations, managed by the public authorities. They extend credit on both rural and urban properties, and to the state, provinces, municipalities, and public corporations empowered to extend such credit. But their chief object is the lifting of burdensome encumbrances on farm lands and converting them into easy long-time contracts at a low interest rate. No profit is aimed at.

The loans are made not in cash but in debentures, but the borrowers are not jointly and severally liable as in the old German landschafts. The security for these debentures comprises, first, the mortgaged properties, then certain reserves and funds, and finally the guaranty of the issuing provinces. There is, of course, no mortgage security for the

communal debentures. The debentures are made payable to bearer, to be redeemed within certain long periods, and may be recalled by the province at any time. No limit is set for the amount which may be issued, except that it must not exceed the amount of the outstanding loans. Debentures are withdrawn by lot or purchase as the loans are paid off. Borrowers may use them at their face value in making payments, and they are lawful investments for the funds of municipalities, districts, corporations, churches, charitable and public establishments, and trustees. They may be deposited also to secure the fidelity bonds given by public officials and employees.

Only amortizable long-time loans are granted. Most of them run from 30 to 60 years; the average is $54\frac{1}{2}$ years, extinguished by an annuity of $4\frac{1}{2}$ per cent. The rate of interest is now four per cent in most provinces. The interest for the past 20 years has not been five per cent over that figure. Besides the interest rate on the debentures exchanged for his mortgage and the annual instalments on the principal of the loan, the borrower must pay one-fourth of one per cent toward working expenses and the reserve. In institutions in which the reserve has reached five to ten per cent of the debentures in circulation, this latter charge is reduced, or omitted during the first ten years of the loan. In many provinces it is done away with altogether for poor persons. Borrowers may make repayment in cash at any time, but six months' notice must be given for repayments by debentures. After loans or any parts of them have been repaid, the corresponding debentures, which have been purchased or retired by lot, are destroyed.

The first of these Austrian provincial mortgage institutions was founded in 1865, and the last in 1869. The Galician Boden-Kredit Verein may be mentioned in connection with them. This institution was founded in 1841 for large estates in Galicia and Bukowina as a landschaft of the old German style, and members are jointly and severally liable on its debentures. These institutions hold 21 per cent of the mortgage loans granted by public concerns in Austria.

The organization of land credit in Hungary began in 1767, when Maria Theresa had a survey made of manorial estates and placed the serfs under the protection of the Urbarial Court, upon which she conferred the exclusive power of dispossessing the serfs and of fixing the size of the holdings which they might possess. The serfs were known as "urbarians." Alongside of them arose another class of tenants called "curialists" or "contractualists," because of the fact that their right of possession rested upon contracts with their noble landlords. The curialists paid head tax but not the land tax; the urbarians paid both. In 1848 compulsory labor, tithes and dues were altogether abolished and the urbarians were made freeholders. The curialists then thought that they should hold possession of their holdings without fulfilling their contracts, and indeed many were allowed to do so, the nobles having been intimidated by the agrarian troubles in 1846 when the serfs in Galicia rose and massacred their landlords. Finally, however, the Government adopted the practice of taking over large estates wherever agrarian troubles were acute, and parceling them out to the peasants, giving the landlords bonds by way of compensation.

This change completely revolutionized agricultural conditions. The peasants who formerly were content with six to ten cents a day demanded five times that amount or else refused to work. Labor became scarce. The Turkish wars increased the general impoverishment, and landowners, especially the extravagant nobles, were unable to pay their taxes or even to obtain a living from their farms. In 1857 the National Bank of Austria tried to render assistance, but did very little good because land registers were kept inaccurately and mortgages were unsafe. Consequently, most of the landlords were forced to the necessity of selling the bonds which they had received from the state at a very heavy discount, while many of them could not obtain credit at all even at the ruinous rates then prevalent. In 1858 George Mailath addressed a circular to the principal landowners of the country, calling attention to their needs and urging them to estab-

lish a land bank on plans which he had formulated partly on the German landschaft model. A sufficient number having responded to his call, a bank called the Hungarian Boden-Kredit Institut of Budapest was organized on July 1, 1863.

The Hungarian Boden-Kredit Institut, or Land-Credit Institution, was not organized for gain. It was founded by 209 noble landowners inspired by patriotic motives. Its capital of \$821,730 was created by a contribution of \$245,000 from the state and \$576,730 subscribed by the founders. The smallest share was \$2,450, and each founder paid for his share by giving one-tenth of its face value in cash and nine equal notes for the balance. The last of these notes were redeemed in 1876 and returned to the founders, but the cash is still retained and draws five per cent interest a year.

The chief authority in the Institut is the founders' assembly, composed of the founders and their successors, in which no person has more than one vote or may hold more than nine proxies. Twenty founders representing at least 30 votes constitute a quorum. Under this body is the general assembly of the borrowers. Those who have received loans of \$24,500 or over have one vote each, but no more. Those who have received loans under that amount must group themselves by districts and may send to the general assembly one delegate for every \$196,000 of loans. All borrowers become members.

The administration of the Institut comprises a board of directors, a committee of supervision, and the usual staff of officers. The board of directors consists of a president elected for three years at an annual meeting of the general assembly and chosen from among three persons proposed by the founders' assembly, and at least three and at most five other members chosen by the committee of supervision. Persons not members of the Institut may be elected to serve on the board. The committee of supervision consists of 36 members, one half of whom are chosen by the general assembly and one half by the founders' assembly. A portion of them are renewed at regular intervals.

The board is the executive head of the Institut, but at least three of the supervisors must attend the board's meet-

ings when loans are being considered, and no loan may be granted unless a majority of the attending supervisors consent thereto. The committee of supervision watches over all other affairs, prepares the annual report, and has such other high functions that it is practically the ruling power. Local committees of borrowing members act as agents and guard the interests of the Institut in the provinces. The by-laws may be amended or the Institut itself dissolved by the general assembly, but only upon a proposal submitted by the founders' assembly, which is convened by the board of directors. No resolution of this nature, however, has any effect until approved by the Hungarian Government. A special commissioner appointed by the Government is charged with the duty of seeing that the Institut observes the laws and conducts its business in a satisfactory way. He must countersign the annual report, may attend all meetings of members and officers, and is empowered to set on foot whatever investigations he deems advisable.

The objects of the Institut are to grant loans to individuals and cooperative associations on the security of rural properties, to finance land improvement and reclamation projects, to receive deposits, to do commercial banking, and to purchase mortgage loans made to small holders by the cooperative credit societies affiliated with the Hungarian Central Society for Cooperative Credit described in a later chapter. The Institut operates entirely in the interest of borrowers, and for this reason the Government has granted it special privileges by exempting it from taxes on business done and from stamp duties and by recognizing its debentures as legal investments for trustee funds. The debentures issued on land-improvement projects are non-taxable. Summary proceedings may be resorted to against debtors in default.

Except in the case of the mortgages of small homesteaders, the minimum for loans is \$4,900. The majority of loans actually granted are for sums of less than \$24,500. Long-term loans are subject to obligatory amortization and are made in debentures according to the German landschaft plan.

Consequently, the rate of interest on the loan as well as its length depends upon that of the debentures. The borrower has the right to choose debentures of the rate and term he wishes among those issued. In 1895 the Institut issued 3.5 per cent debentures redeemable in 63 years by an annuity of 4 per cent from the borrower, but these were never quoted at par, and the lowest now issued are four per cents. In addition to the interest and yearly instalment on his loan the borrower must pay 0.06 per cent into the reserve and one per cent into the guaranty fund. The latter is returned in full after the debt is finally paid, if no losses have occurred. At present the borrower pays no commission for the sale of his debentures nor any contribution toward working expenses, although the Institut is authorized to make these charges. In 1912 the amounts due to the Institut, including loans made for land-improvement and reclamation projects, exceeded \$119,000,000, against which about \$100,000,000 of debentures were in circulation. Members, that is, borrowers, and the founders are collectively liable on these bonds. In 1883 the state borrowed \$1,713,000 and so became a member of the Institut. One per cent of the net profits must be devoted to some agricultural object of a public nature. The rest is used for increasing the capital. This with the reserves gives the Institut (1910) a working fund of its own exceeding \$10,000,000.

In 1879 the National Land Credit Institute for Small Landowners of Hungary was founded at Budapest on practically the same lines as the Boden-Kredit Institut and endowed by the state with \$245,000 free of interest. There are, however, some material points of difference. Founders' shares in the new Institute are \$49, \$245 and \$2,450, and draw five per cent dividends. These shares will begin to be paid back when the reserves reach \$1,470,000. Each founder is entitled to as many votes as he has \$49 shares. Ordinary members, that is, borrowers, have one vote for each group representing \$122,500 of loans. There is no special founders' assembly, the chief power in this institution being lodged in the general assembly of the members to which the founders

also belong. The management is entrusted to a president and vice-president, assisted by three advisors, who constitute the board of management, and to a committee of nine whose duty it is to examine the accounts. Both bodies are elected by the general assembly.

This institution for small holders has the same privileges and powers which were conferred upon the older Institut, with the exception that its business is confined entirely to granting real-estate credit in small amounts. The smallest loan is \$73 50, and none can exceed 50 per cent of the value of the mortgaged land. They are made either in cash or debentures. The interest rate is now usually four per cent, in addition to which the borrower pays one-fourth of one per cent toward cost of business, and one per cent for amortization, or a total of 5.25 per cent to extinguish the loan in 50 years. The Institute lends on mortgages assigned to it by the Hungarian Central Society for Cooperative Credit and is very active in aiding home colonization and in dismorgaging the land. At the end of 1912 its outstanding loans amounted to approximately \$54,390,000, founders' shares \$2,082,500, and reserves \$3,756,585. These loans and funds, together with the joint and several liability of the founders and members, that is, borrowers, are the security for the debentures.

The latest step taken by the Hungarian Government to help the poorer agricultural classes was the creation in 1911 of the National Federation of Hungarian Land Credit Institutions. The principal objects of the Federation are to take over the management of large estates and allot and sublease them to small holders, to assist such persons to acquire or improve small holdings, particularly those who are members of the cooperative societies affiliated with the Hungarian Central Society for Cooperative Credit; to effect the conversion of existing burdensome encumbrances into mortgages on easy terms; to acquire pastures for the common use of farmers; to construct dwellings for agricultural laborers; and generally to carry out the policy of the Government in respect to land. The Government endowed it with \$1,960,000, required the

Boden-Kredit Institut, the National Land Credit Institute for Small Holders, and the Hungarian Central Society for Coöperative Credit to subscribe \$1,715,000 toward its capital, and turned over \$2,450,000 of valuable securities as a guaranty fund for its debentures. Its membership is open only to the state, these three institutions, and such individuals as may subscribe to founders' shares of \$24,500 with dividends limited to four per cent. No individuals have yet subscribed.

The Federation enjoys the same privileges as those possessed by the Hungarian Central Society for Coöperative Credit, but it is much more intimately connected with the Government. The president and two members of the board of directors are appointed by the Minister of Finance, the vice-president and another member of the board by the Minister of Agriculture. The members so appointed are selected from the respective departments of these ministers, and they may stop any act of the management until passed on by the Government. All plans relating to the purchase and leasing of estates or the sale of land are subject to the approval of the Minister of Agriculture, while questions regarding the issuing of debentures and the methods of granting credit are determined by the Minister of Finance.

Another mortgage-bond concern based on the joint and several liability of borrowers in Hungary is the Land Credit Institute at Nagy-Szeben. Its peculiarity lies in the fact that the holders of the debentures are allowed to be represented at the meetings of the members and have one vote for every \$4,900 of debentures in circulation.

When we turn to Russia, the magnitude of the homestead and small-holdings projects of Russia makes those of all other nations except Great Britain sink into insignificance. Hundreds upon hundreds of thousands of Russian farmers have acquired millions of acres worth billions of dollars by means of money and credit facilities supplied by the Government. The Government's projects, which began with the liberation of the serfs, comprises the colonization of the public domains in Siberia, the redistribution of the myriads of plots of the peasantry of European Russia, and the increase of the

area of agricultural lands held in fee simple by those who cultivate them.

The colonization of Siberia is conducted by the Internal Emigration Service. This has an annual appropriation of \$12,875,000, out of which homesteaders are granted loans and free transportation when necessary. More than 3,000,000 persons have gone into Siberia, one half of them in the three years between 1907 and 1910, and the number is now so large that the Service with its 3,000 officials is unable to cope with the situation. At least 700,000 of the emigrants are working as day laborers while awaiting their allotments (1910).

The two other projects are conducted by the Peasants' State Land Bank acting in conjunction or in harmony with district, regional and provincial land commissioners. These are public bodies composed of members in the main selected from official life. The lower commission is subordinated to the higher, and all are subject to the control of the Agricultural Land Commission at St. Petersburg, which serves as a court of last instance in matters within their jurisdiction. The Bank, which is the largest land-credit institution in the world, is the financial organ of the Government in its land policies. It was originally founded to help ex-serfs only.

The emancipation of the Russian serfs on the crown lands occurred on June 20, 1858, on the feudal estates February 19, 1861, and on the public domains January 18, 1861. All the serfs were given the right to acquire enough land to live on. The regulations concerning these allotments were promulgated for the first two classes in 1863 and 1866, but for the last class not until 1891. The regulations are not all alike but generally each ex-serf was granted a piece of land equal in size or area to that which he occupied at the time of his emancipation. In this way 22,396,069 ex-serfs came into the possession of 315,508,108 acres, an acreage greater than that of the cultivated lands in Germany, France and England combined. The total value of these lands exceeded \$1,030,000,000. It was turned over, however, not to the ex-serfs directly but to the *mirs*, or counties, in which they were

located, and these counties were entrusted with its distribution and were made responsible for the payment of the annuities.

It took years, of course, to make this distribution, and in the meantime the undistributed land was held in common, with title in the county, and all peasants therein were collectively liable for the annuities due the Crown and state. The peasants were forbidden to sell or otherwise dispose of their allotments. The parceling of the lands was badly done. Each peasant wanted a little woodland, a water right, a garden patch, a farm and a place in which to live in his village. Many a peasant had 50 to 100 plots, and the average was 20 plots for each, of which the area was between 24.71 and 165.57 acres in most counties. This led to poor farming and most of the peasants were unable to pay their annuities. Those who had acquired ownership, either from the counties or noble landlords, were becoming mere tenants at rack rent, and their plight was worse than under their former bondage. These conditions acted adversely on agriculture to the damage of the nation, so the Government resolved to intervene in order to assist the ex-serfs in redeeming their land from its burden of accumulated and running charges, and also to help those who had lost their holdings to recover them. The Peasants' State Land Bank was the result.

The Bank was established in 1882 and opened its doors in 1883 with an annual subsidy of \$2,575,000. It is owned and operated by the state, and its objects, which have been extended from time to time, are now to make loans to individual farmers, to associations of three or more farmers, and to counties, and to purchase agricultural lands to be subdivided, allotted, and sold on mortgage to farmers. Purchases of this kind are not made in cash. The bank gives the owner of a desirable tract which he is willing to sell certificates, or rather shares, drawing four per cent interest, which may be converted into a book of notes and coupon bearing six per cent interest, the principal to be repaid in ten equal instalments after the sixth year.

At the beginning of 1911 the Bank had 14,537,812 acres

in its possession, the larger portion having been sold to it by nobles or large proprietors alarmed by the agrarian troubles of the preceding few years. "The latent agitation," says the Bank's report, "which in the last six months of 1905 degenerated into acts of violence, caused a panic among landowners. Agitators instigated the rural population to aggression. Landowners were driven from their estates. Plunder, destruction of livestock and implements, incendiarism, and the devastation of forests, to which the peasants openly abandoned themselves, together with their refusal to work, rendered the management of the estates impossible. . . . The peasants were waiting for the division of land announced by the revolutionists, and private investors were afraid to place their capital in the land." So the Bank took over this enormous acreage to save it from falling into the hands of speculators. Between 1906 and 1910 the Bank subdivided and sold to farmers 4,041,789 acres for \$92,700,000.

The Bank lends only to enable gentile Russian farmers to acquire or improve farm lands. Jews and aliens are excluded. The farm must not exceed 56 7/8 acres. Loans must be secured by first mortgage on the property thus allotted or bought or intended to be improved. They may equal 90 or even 100 per cent of the value of undivided lands to individuals, but for associations and counties the limit is set at 80 or 85 per cent. Four periods are allowed for the extinction of the debt: 13 years by an annuity of 9 1/4 per cent; 18 years by an annuity of 7 1/4 per cent; 28 years by an annuity of 5 80 per cent; and 55 1/2 years by an annuity of 4 1/2 per cent. This means that the interest rate is four per cent. The debentures of the Bank are executed by the Minister of Finance. They bear four per cent interest, and as they are quoted above par, the bank is enabled to obtain money at a rate slightly lower than that charged on the loans. No more than \$2,575,000 in debentures may be issued in any one year without the express sanction of the Czar.

Although the Peasants' State Land Bank procures this cheap and easy money for its borrowers, it has always encountered great difficulty in collecting its loans. The farmers

seem to think that inasmuch as the Government has taken such pains in helping them to acquire land, it ought to go the full length and let them have it free. Indeed, the ex-serfs of the crown and public domains appear never to have had any intention of paying their annuities. The defaults were so numerous, heavy and long continued that the Government dared not resort to forcible measures for fear of insurrection, and in 1907, realizing that there was no hope of recovery, it renounced all rights to overdue annuities and charges and thereby released the farmers from a debt the capitalized value of which was \$839,820,800. This of course practically wiped out the assets of the Bank. But the Russian Government is patient and indulgent with the farmers, and has permitted them to contract further debts under its guarantee. Their outstanding loans at the Bank now exceed \$515,000,000, none of which brings in any profit, the institution being purely benevolent.

The Peasants' State Bank employs about 2,000 surveyors and agricultural experts, and has also a special board with branches to act in conjunction with the land commissions with their more than 5,000 officials and employees. All purchases and parceling of lands by the Bank are now conducted through the commissions, while the transactions of the commissions are nearly all financed by the Bank; thus all are parts of a grand system. The land commissions were established in 1906, when the farmers for the first time were given the unrestricted control of the land which had been allotted to them. The commissions were charged with the allotment of lands still held in common, on which the collective liability for annuities had all been abolished in 1905, and they were substituted for the counties as the official agents for unifying the detached plots held by farmers. In 1911 the commissions were authorized to assist any farmer to readjust his holdings, no matter from whom the title was derived, and to help him to acquire land sufficient for his needs.

The work carried out by the land commissions, with the aid of the Peasants' State Land Bank, during the first five years of their existence affected 29,085,132 acres, or about

two-thirds of the cultivated area of Prussia or one-half that of Italy. The commissions are authorized to grant small loans to farmers whom they have assisted in acquiring land or uniting plots. These loans may be made without interest and payable in equal instalments beginning with the sixth year, and the amount of each must not be over \$77.25. They are granted to help pay the initial expense incurred by a farmer in taking up a farm. The total amount thus distributed by the commissioners from 1906 to 1911 was \$6,928,059.

In Finland state aid is extensively used for home colonization. Large tracts bought by the state have been subdivided and sold to persons without land, but the most common practice since 1900 has been for the state to advance the funds for this purpose to communes and cooperative societies. These intermediaries between the state and the small holder may acquire land by direct purchase for subdivision and sale, or may grant loans to individuals in order to assist them in buying holdings.

The communes are required to organize rural banks before they may receive advances from the state, and each commune is made liable for any advance its rural bank receives. Each bank is managed by a board consisting of three residents, two of whom must be landowners, appointed by the communal council. The cooperative societies which may receive advances are those organized on the collective-liability basis, and they lend only to members. In 1912 there were 303 communal rural banks and 13 cooperative land-purchasing societies operating with state funds. The latter are steadily increasing in number and will eventually become the more numerous because they may take back from a member a mortgage up to nine-tenths of the purchase price of the holding, while a borrower from the communal banks may receive a loan only up to one-half the amount of the purchase price.

The advances made by the state bear four per cent interest, together with an instalment on the principal sufficient to extinguish the debt within 25 or 30 years. The banks charge their borrowers $4\frac{1}{2}$ per cent interest, the difference being used for expenses or profits which are employed by the banks

for the good of their communes, and by the coöperative land purchasing societies for rebates among their members. The smallest advance of the state to a bank or society is \$965, and the largest \$46,320. The banks may not make loans of less than \$38 60 or over \$386, except in a few favored provinces, where the maximum may be \$579.

The Mortgage Society of Finland, founded in 1860, is an association empowered to issue guaranteed debentures for the purpose of making loans to members upon the security of unencumbered real estate on their joint and several liability. This liability is so regulated that the properties and their owners are liable on the debentures only in proportion to the mortgages given. A reserve formed by small additions to the interest rate on the loans is maintained at five per cent of the face value of debentures in circulation, in order to meet possible losses and protect members from the responsibility of their guaranty.

Similar to the Finnish association is the Territorial Credit Establishment for the Baltic provinces of Livonia, Esthonia and Courland, which was chartered in 1818 by Emperor Alexander who advanced it the necessary funds for its first operations. This advance has been returned long since. The collective liability of the borrowing members is limited for each to three-fourths of the value of the mortgaged properties.

In Roumania the policy of expropriating the nobility for the benefit of the peasants was inaugurated in 1864. The Government paid for the estates confiscated and also bore the cost of their subdivision and allotment among the peasants. The enormous numbers of peasants who were given small holdings left the nobility and large proprietors without the customary forced labor to operate the land which remained to them, and as a result they gradually fell in debt and were compelled to mortgage their farms in order to raise money for living expenses. The German landschaft system was introduced for this class by a law enacted in 1873, and the three institutions which were founded under that law received subsidies from the state.

In 1908 the Rural Bank was founded in Roumania on lines similar to the Russian Peasants' State Bank. The Government subscribed one-half of the \$2,000,000 capital, and reserved the right of designating its president and of supervising its business through a commissioner. In 1909, after the serious peasants' revolt of 1907, the state extended further favors to the small holders by providing by law that rural cooperative associations should be given the refusal of all public lands or lands of charitable institutions, districts and communes which should be offered for lease.

In Servia a bond and mortgage institution was founded by the Government in 1862. This land bank is the depository of the public funds of the nation and of the communes. It is managed by officers appointed by the Government, and a part of its profits go into the national treasury.

CHAPTER XVII

SWITZERLAND, DENMARK, AND SCANDINAVIA

Numerous Swiss Land-credit Institutions.—Unique Mortgage Banks —Danish Associations Like German Landschafts.—Mortgage Associations in Denmark —Mortgage Bank of the Kingdom of Denmark.—Home Colonization Policy —Landowners' Mortgage Associations.—Swedish General Mortgage Bank —Appropriations by Swedish Government.—State Aid in Norway —Work Done through Norwegian Bank for Laborers' Holdings and Dwellings.

THERE are in Switzerland 28 land-credit institutions belonging to the state or operating with the support of the state, and 60 private mortgage banks, besides 104 savings and loan banks which accord real-estate credit. All these institutions have been successful in granting loans for very small sums, even up to four-fifths of the value of the land, at low interest rates and on easy terms. They are able to do this because they are so numerous and in such close proximity to borrowers that they may examine carefully all applications and keep watch over securities and the use of the money lent. Until 1912 there were 60 different forms of mortgages and considerable variety in the interest rates. The banks perhaps would not have been able to do much good had it not been for the fact that there was an ample supply of local capital. In that year a federal law was enacted compelling all the banks to use one and the same type of mortgage instrument, and since then foreign capital has been attracted and the interest rates nearly standardized. They run from four to five per cent, which are the limits fixed among the 22 cantons by the usury laws.

The mortgage banks of Switzerland differ from those of the rest of Europe in that there is no correspondence between

the debentures and the loans. The reason for this is that most of the Helvetian mortgage banks do all kinds of banking business and finance their real-estate loan transactions by any available money on hand. The issue of debentures or bonds, however, is usually limited to ten or fifteen times the capital stock. All loans are made in cash, the debentures being issued and disposed of directly by the banks according to their needs. State supervision is not exercised to the same extent by all the cantons, but in many it is so pronounced that the mortgage banks are public or semi-public institutions.

The Mortgage Bank of Berne, founded in 1846 and remodeled in 1875, was given \$1,400,000 for its initial capital by the canton, which has also furnished other sources of revenue. It has been made the depositary of public funds and it administers the public debt and financial affairs of the canton. It may make first-mortgage loans on lands situated within the canton up to two-thirds of their value, lend upon such securities, and receive deposits. But the loans are not made directly by the Bank. The borrower must apply through the commune which has jurisdiction over the locality in which his property lies. Each commune guarantees all loans which it approves, but its liability extends only to the estimated value of the mortgaged property, and it cannot be called upon to pay any more than the amount of the deficiency remaining after the property has been sold on execution. But it is not responsible for depreciation in the property occurring after the loan has been granted. The canton guarantees all engagements of the Bank not covered by its assets. The Bank must give the preference to small loans. The largest allowed is \$10,000. Repayment is made by annuities, which (including interest) must not exceed six per cent a year. The interest cannot be one-fourth of one per cent over the highest rate for deposits. The mortgages do not have to be refilled every ten years as provided in the general laws.

In the canton of Vaud the Government purchased 11,000 of the 19,500 shares issued by the Mortgage Bank of Vaud

for \$110,000, and guarantees a four per cent dividend. The Vaud Bank is authorized to use in its business the deposits of the government savings bank and the government insurance society. Its business is confined to making first-mortgage loans up to three-fourths of the value of lands and buildings within the canton; to lending on the security of such mortgages or debentures secured by such mortgages; and to investing its assets in certain other kinds of bankable paper. The shortest mortgage loan is five years, and the smallest \$60. Loans repayable by annuities are preferred, and they may run from nine to 57 years.

Stockholders of the Mortgage Bank of Vaud have two votes for every ten shares up to 50, four for the next 50 up to 100, and one for each additional 100 shares. At their biennial meeting they elect ten members of the board of directors, two auditors and two secretaries. The cantonal council of state appoints the president and the ten other members of the board of directors, all of whom must be stockholders. It also appoints from among the public officials a secretary for the board of directors and four stockholders to act with the president as the committee of supervision, the latter chosen out of 12 named by the board of directors. Likewise, it appoints a managing committee of a chairman and two directors, chosen from a list of nine nominees presented by the board of directors. It will be seen that the state thus has complete control of the Mortgage Bank of Vaud.

The Land Credit Bank of Geneva was supplied at its foundation with a capital contributed by all the 48 communes of the canton, and it is managed by a board of directors composed of members of the cantonal and communal councils. The Mortgage Bank of St. Gall, though a private joint-stock company, was created by the initiative and is operated under the guaranty of the cantonal government. The canton owns one-fourth of the capital stock of the Mortgage Bank of Fribourg, and supervises its management through a committee composed of the financial director of the canton, two members named by the council of state, and 12

chosen by the stockholders. This bank offers a peculiar service not found elsewhere. If the debtor of a third person will make a contract, secured by real estate, to pay to the bank annuities for a number of years to be agreed upon, the bank will undertake to pay the creditor his interest and capitalize the remaining portion of the annuities to pay off the principal at maturity.

In Denmark there are 14 land-credit associations, patterned after the new German *landschafts*, but differing from them in a few particulars. The Danish *landschafts* lend on both rural and urban real estate, and may grant straight loans even for 60 years without amortization, provided they do not exceed one-third of the value of the mortgaged property. They may issue their debentures in such a way that members are liable only for the series emitted during the period in which they were admitted. The liability is further restricted in that it extends to the full amount of the debenture if the loan for which it was exchanged equals three-fifths of the estimated value of the mortgaged property, but is correspondingly less if the loan is smaller than that fraction. Apart from these differences there is little to distinguish the Danish *landschafts* from the German type. Their debentures are free from stamp taxes and are a lawful investment for public and trustee funds, while their loans may be collected by summary process. The associations in existence were all organized shortly after the law which governs them was enacted in 1850. Since 1861 new associations can be created only by special acts. At the end of 1912 the total of the outstanding loans was \$440,860,000, with a maturity of 60 to 70 years. The debentures in which they were made bore four and $4\frac{1}{2}$ per cent interest.

Similar to the land-credit associations are nine other Danish *landschafts* called mortgage associations, which were brought into existence by a law of 1897 for the exclusive purpose of extending credit on second mortgage. These associations grant 25- to 30-year loans for small amounts up to three-fourths of the value of the mortgaged property. They also lend on both rural and urban property, but although

their debentures are highly privileged, they have been able to raise funds for only \$27,604,000 of loans. The total amount of the farm loans granted by the 23 Danish landschafts is estimated at \$233,160,000.

In 1906 the Mortgage Bank of the Kingdom of Denmark was founded with a capital of \$5,360,000 advanced by the state at three per cent interest, to serve as a central institution for the landschafts and also to assist the state in the work of providing small holdings for homeseekers. The Bank buys the debentures of the landschafts and the state-guaranteed bonds of the small holders and issues its own bonds upon their security. So far it has been able to dispose of only \$10,720,000 of these debentures at three and one-half and four per cent.

The home colonization policy of Denmark was inaugurated in 1899 by the state's voting an annual appropriation of \$536,000 to be lent to small holders. In 1904 the annual amount was raised to \$804,000 and in 1909 to \$1,720,000. Any unused portion of one year's appropriation is accumulated for subsequent years. Any able-bodied Dane of good reputation between 25 and 50 years of age may now call on the state to help him acquire a rural homestead of a value not exceeding \$1,742, including cost of buildings, livestock and implements. In exceptional cases the value may be \$2,144. If the applicant can show that he has one-tenth of the value in ready cash, the state will lend the balance at three per cent on a first mortgage to be repaid at long term by instalments, beginning in the sixth year. This business is directed and supervised by district laborers' holdings commissions, each composed of three members, one of whom, acting as president, is appointed by the Minister of Agriculture, while the other two are elected by a body consisting of two delegates from each commune in the district. The commissioners, who are allowed only very small compensation, are assisted by the municipal authorities. No landowner, however, can be expropriated, in order to create small holdings, because the Danish constitution makes private property inviolable except to the right of eminent domain. At the end

of 1911 the state had established 5,777 homesteaders with the aid of \$6,809,919 in loans

In Sweden landowners' mortgage associations were the first institutions especially created there to accord real-estate credit for agriculture. The oldest of these was formed in 1831 and the latest in 1861. There are now ten of them, and each has a definite territory, generally embracing several provinces.

These associations are not entirely agricultural or composed exclusively of borrowers. Any resident of the territory owning land of the value of \$1,125 free and clear of all encumbrances may become a member by making the contributions prescribed by the by-laws. They are purely private concerns, the supervision of the Government being confined to inspection and the approval of the articles of agreement and amendments thereto. In the smallest association allowed the members' properties must have a combined value of at least \$1,125,000.

The minimum loan is \$134 and the highest rate of interest that may be charged is six per cent, plus a percentage for expenses. Arrears are charged a penal rate of 12 per cent. First mortgages not exceeding half the value of the land exclusive of buildings and forests are always required. At present loans up to this maximum are granted for 28 years on an annuity of six per cent, and on an annuity of 4.5 per cent for about 56 years. Loans not repayable by annuities or instalments may be granted up to one-third the value of the land for 25 years at an interest rate of four per cent. The charge for expenses is now one-twentieth of the principal. As the associations have no shares or capital stock, no dividends are distributed. The profits are placed in the reserve until this fund reaches a certain amount, when they may be used to lower the interest rate to borrowers. The reserve fund now equals 4.61 per cent of the outstanding loans.

Formerly these associations were independent of one another and each financed itself by issuing debentures. This brought about competition and the debentures were frequently sold below par. Finally, after the financial crisis

following the bad crops of 1857-9, sales ceased entirely, in spite of low quotations, and members were unable to get further loans or extensions. The Government decided to remedy these troubles and prevent their recurrence by uniting the associations with a central institution to be controlled and aided by the state.

This institution, called the Swedish General Mortgage Bank, was founded in 1861 with an endowment of \$2,144,000 of unconvertible state bonds. The Bank is managed by a council composed of a president appointed by the King, a vice-president appointed by the parliamentary committee on the public debt, and three delegates elected by the associations. The council is subject to a board of five supervisors, one of whom is appointed by the parliamentary committee on the public debt and the others by the associations. The by-laws of the Bank, made with the sanction of the king, cannot be altered without the consent of Parliament. In 1890, when the rules and regulations which now govern the Bank and the associations were adopted, the state gave the Bank a further subsidy of \$8,040,000 in non-redeemable five per cent government bonds, for converting outstanding debentures of the associations issued below par. This subsidy may be used for loans if the Bank should have no other funds, but in that case the amount so employed must be immediately covered by an issue of debentures.

Membership in this Bank is open only to the ten land-owners' associations or others which may be formed of the same kind. They are jointly and severally liable for all debts of the bank. The liability is proportioned for each association to the amount unpaid on the loans it has received, the minimum liability is \$268,000. When the Bank first opened, it absorbed the loans of the National Loan Bank which was dissolved, but now its business is confined to making loans to the affiliated associations and it has an exclusive monopoly of issuing debentures payable to bearer and secured by real estate.

The lowest rate at which the Swedish General Mortgage Bank may lend to the associations is 3 5 per cent. At the end

of 1912 its debentures in circulation amounted to \$79,301,-987, and loans to the associations to \$80,192,903. Like the associations the Bank has no share capital and pays no dividends, all profits being placed in the reserve or used for reducing the charges to borrowers. The loans of the ten associations to members amounted in the same year to \$74,989,-348, they were secured by first mortgages on properties, practically all agricultural, valued at \$235,161,659, and by the reserves and the joint and several liability of the individual members. As the total mortgage debt on rural lands in Sweden was estimated at \$536,605,784 in 1910, this system holds a portion relatively small but sufficiently large to have a salutary effect upon interest rates. All loans made by the Bank to the associations or by the latter to members may be recalled after ten years. Members may pay in advance but only when the association can immediately find a profitable investment for such prepayments.

The landowners' mortgage associations rarely grant loans of the minimum size allowed. Their members are mostly nobles or owners of large estates. As in the case of the German landschafts, from which it was copied, this Swedish plan of according credit upon the liability of groups of borrowers has not proved of much use to small farmers. The credit needs of this class are taken care of in Sweden by loans made from public funds specially appropriated for that purpose. The first of these funds was created in 1904 for building houses for laborers and enabling them to acquire small holdings in the country. The maximum loan allowed is \$2,144 for purchasing a plot with no building upon it, and \$1,883 for land with buildings standing. Each loan is divided into two parts, the first half being repayable by an annuity of six per cent in 28 years, the second being a straight loan at 3.6 per cent per annum. Loans must be secured by mortgages which may not exceed five-sixths, but are generally no more than one-half, the value of the land. The Government recently appropriated \$964,800 for facilitating this work, especially for buying and cutting up large tracts of land. Interest on loans out of this fund is 4 per cent.

The Swedish Government also appropriates \$268,000 annually for draining and preparing newly cleared lands for cultivation. The only maximum set for loans out of this fund is that they may not exceed the amount of the expenditure plus 70 per cent of the resulting increase in the value of the land. No interest is charged for the first three years. After that 3.6 per cent is charged up to the seventh year, and then an annuity of 6 per cent until the debt is extinguished. Similar to this fund is the annual appropriation of \$80,400 for clearing lands in Norrland. Loans from the Norrland fund may not exceed \$134 plus the cost of clearing the land. They bear three per cent interest after the second year and must be repaid within ten years. Excepting the appropriations for drainage, all loans from these funds are made through the rural coöperative associations, the rural people's banks and other disinterested intermediaries, who are instructed to accept no applications but those of temperate and industrious persons, male or female, between 21 and 50 years of age.

The Government of Norway tentatively began to assist the movement back to the soil in 1894 and adopted a grand programme for that purpose in 1903. The prime object was to supply the large landholders with the labor of which they were in great need, and it was thought that this object could be best accomplished in a permanent way by helping each laborer to acquire a small homestead on which his family might live in comfort by means of the crops and their wages.

The programme of state aid is being carried out through the Norwegian Bank for Laborers' Holdings and Dwellings, founded in 1903 with a capital of \$2,680,000 contributed by the Government. This institution is managed by the officers of the Norwegian Land Mortgage Bank organized in 1851, and is supervised by the Minister of Finance. These officers are assisted by local committees of labor, appointed by the communal council in every commune in which the bank does business, out of electors equally divided between laborers and landowners.

The state draws five per cent interest per annum on the

capital, but makes good any losses incurred. The Bank may issue debentures payable to bearer whenever its own funds become insufficient. These bonds are signed by the Minister of Finance and are guaranteed by the state. They run from 30 to 80 years and are callable at the will of the Bank. The total in circulation must never exceed six times the capital stock. Another privilege is that the Bank may sell at auction any mortgaged property, in case of default after demand, simply by publishing a notice for six weeks in the official newspaper and the further notice provided by law on judicial sales. No judgment or action by the courts is required.

The loans of the Norwegian Bank for Laborers' Holdings and Dwellings are granted to poor persons, male or female, either for the purchase of small farms or for erecting, completing or purchasing dwellings. A person is considered poor if his assets are less than \$402. A small farm is 50 acres of land, cultivated or not, or at most 200 acres of cultivated land the value of which does not exceed \$804. If the application of such a person is approved by the committee of labor of the commune which he inhabits, he may obtain a loan from the Bank for buying such a small farm and for erecting the necessary buildings on it. The amount must not exceed nine-tenths of the actual price increased by the estimated value of the improvements. The interest rate is 3 5 per cent. The principal is repaid in semi-annual instalments beginning in the sixth year of the loan and running for 42 years. The security in all cases must be a first mortgage guaranteed by the commune. These loans may be made directly to the applicant, or the Bank may advance money to the commune for the purchase of tracts to be divided and sold on mortgage to poor persons.

Loans for erecting, completing or improving dwellings also may be made directly or to the communes or to societies organized for building such houses. These building loans draw four per cent interest, and the repayment of the capital begins after the second year and runs for 28 years. The terms imposed for these loans have some points of difference

depending on whether the house is to be erected in the town or in the country. For country building the requirements exacted are about the same as those for the purchase of small farms, with the exception that the plot cannot exceed 50 acres. The loan is paid to the contractor in instalments as the work on the building progresses. The total amount up to which a rural commune may obligate itself in guaranteeing loans at the Bank is \$40,200. The number of rural holdings created by loans from the Bank down to 1913 was 11,579.

CHAPTER XVIII

LAND CREDIT OUTSIDE OF EUROPE

Land-credit Institutions in Egypt—Land-credit System of Japan.—Agricultural Bank of the Philippines—State Banks of Australia.—Queensland Agricultural Bank—State Aid for Home Colonization in New Zealand—Mexican Land Mortgage Banks and Promotion Banks—Three Land-credit Institutions in Argentine Republic—Early and Successful Land Credit in Chile.—Banco Hipotecario del Uruguay—Costa Rica's State Land-mortgage Bank—Territorial Bank of Cuba—Development in Europe and America of Loans on Life Insurance Policies.

THE highest estimate of the value of real estate in Egypt is five billions, and the lowest, two billions of dollars. The mortgage indebtedness is about \$243,000,000, or at most not much over one-twentieth of the highest estimated value of the land; and since the interest rate thereon varies from $5\frac{1}{2}$ to 7 per cent, the landowners have no difficulty in carrying this burden, because the land itself yields six to nine per cent annually, and nowhere is encumbered to over 60 per cent of its value. About \$40,600,000 of this indebtedness is held by private persons and insurance companies, and the rest by the five land-credit institutions now existing in Egypt.

Some features are worthy of notice in two of these institutions, the Crédit Foncier Egyptien (Egyptian Land Credit Company) and the Agricultural Bank of Egypt. The former is a private joint-stock company operating without any special privileges. Its main object is to grant long-term loans secured by first mortgage, running from five to 50 years and repayable by periodical instalments. In appraising land for security it places its valuation at 50 per cent of the actual value and allows credit only up to 60 per cent of that valua-

tion. This wide margin makes its debentures so safe and saleable that it is able to grant loans at the lowest rate prevailing in Egypt. The last debentures issued bore four per cent interest, but this does not indicate the true cost of raising money for its operations, because as a general practice it issues its debentures below par so as to give the holder a premium at maturity. At the beginning of 1913 the outstanding debentures amounted to \$116,975,436. Dividends have never been under $9\frac{1}{2}$ per cent a year. For the last four years they have been 26 per cent on ordinary shares and over 500 per cent on founders' shares. The company serves large and medium-sized landowners.

The second institution mentioned, the Agricultural Bank of Egypt, is especially designed for the small proprietor. Nine-tenths of the population of Egypt is agricultural, and the holdings and credit needs of the majority of them are too small to be considered by other Egyptian banks. The first remedy devised for supplying the lack of credit facilities was put in operation in 1894, when the Government bought cotton seed and sold it to the growers on time, this has been done on various occasions since. The next move was to require the *Crédit Foncier Egyptien* to lower the minimum of its loans to \$500, but as the average loan of the Egyptian farmer is below \$150, this did not do much good. The National Bank of Egypt, however, opened an agricultural section soon after its establishment in 1898, and began to grant loans in sums of \$100 and under, payable in five annual instalments. The Bank's business of this kind grew so rapidly in volume, absorbed so much of its assets, and showed such a large unsatisfied demand for loans that in 1902 the Government brought into existence the Agricultural Bank to attend exclusively to the needs of the small farmers, and transferred all outstanding agricultural loans of the National Bank of Egypt to the new institution.

The Agricultural Bank of Egypt is a private joint-stock company, but it is supported and controlled by the state. About one-third of its shares are owned by the National Bank, which stands in close relations with the Government. The

president of the board of management is the governor of the National Bank. This board consists of seven members, three of whom are chosen from among the directors of the National Bank. Government commissioners audit the accounts of the Agricultural Bank and supervise its affairs. The Government guarantees 3 per cent dividends on its stock and also the repayment of its debentures whenever this is necessary in order to obtain money at fair interest rates. The tax collectors collect and remit the payments on loans, the Bank giving them a one-half of one per cent commission for this work.

The Agricultural Bank of Egypt grants both real and personal credit. Loans not exceeding \$98 86 and running for 15 months or less may be granted on personal security. Loans over that amount must be secured by first mortgages on real estate worth at least double the amount of the loan. The maximum size of the loans is \$1,482.90 and the greatest length $5\frac{1}{2}$ years. They are usually repayable by instalments. The highest interest which may be charged is nine per cent per annum. The maximum for all loans, new and old, must be reduced to eight per cent when the total of the loans amounts at the end of the previous year to \$34,601,000. In 1911 the Bank had granted loans to over 250,000 small farmers. The average size of the personal loans was about \$60, and of the real-estate loans \$170. The latter constitute most of the business of the bank.

In Japan the land-credit system comprises the Nippon Kwango Ginko, a central land-credit bank for making large loans all over the country, and the Noko Ginko, land-credit banks of a local character, of which there are 46, or one in each prefecture. Besides these institutions there is the Colonial Bank for Hokkaido, which extends its operations into the Japanese portion of the island of Saghalien, while the Taiwan Bank takes care of the agricultural needs of Formosa, and the Chosen Bank and the Oriental Colonization Company of those of Korea.

All these banks were chartered by special acts or decrees, and the rules and regulations governing them are not all

alike. The Kwango Ginko or Central Bank was organized in 1896. It is authorized to make loans secured by first mortgage on real estate, repayable by annuities within 50 years, and loans similarly secured or on fishery rights to be paid in lump within five years. The latter must never exceed in total amount one-tenth of the former. Moreover, loans secured by urban properties must never exceed one-half of the Bank's paid-in capital. Long-term loans repayable by annuities may be made to the Noko Ginko banks on the security of mortgages taken by them, and without mortgage security to municipalities, public corporations, farm land adjustment associations, coöperative societies, fishery and forestry societies and their federations. The Bank may also guarantee the bonds of the Noko Ginko banks.

In addition to the foregoing powers the Central Bank may buy the bonds issued by the Noko Ginko and, with its surplus funds, the bonds of the Imperial Government, receive bullion and negotiable instruments for safekeeping, and accept deposits up to the amount of its paid-in capital. Loans may not be granted on the security of schools, hospitals, sanitariums, theaters, mines, quarries, swamps, or mineral springs. The properties used for security must be such that the Bank may acquire a first lien on their titles and that their revenues will equal the annuities or annual instalments to be paid on the loans. The loan must never exceed in amount two-thirds of the value of its security; on buildings the loan may be only one-half of the value and the buildings must be insured in favor of the Bank.

The interest rate on loans is determined by the Minister of Finance. The maximum is now eight per cent. The annuities or annual instalments of a loan must be level or equal for all the years of the term. The debentures issued by the Bank have no fixed maturity but are redeemed two or more times a year by drawings, up to the amounts paid in or which should have been paid in on the loans. The total of debentures in circulation must never exceed the live outstanding loans, and if borrowers make advance payments, a corresponding amount of debentures must be withdrawn forth-

with by redemption or purchase. The debentures may be issued to be redeemed with premiums and prizes.

The Imperial Government guaranteed 5 per cent dividends on the capital stock of the Nippon Kwango Ginko during the first ten years. This guaranty is no longer continued, but the Bank is exempted from registration and stamp duties, enjoys various other immunities, is subject to the control of two public supervisors, and is used as the agent for distributing the money which the Government provides for cheap loans to the Noko Ginko, the Colonial Bank of Hokkaido, the farm-land adjustment, cooperative, forestry and fishery societies. This money now comes from the postal savings banks.

In 1912 the Nippon Kwango Ginko had a capital of \$4,980,000, of which \$3,112,500 had been paid in. The outstanding loans, including the bonds of the Noko Ginko guaranteed by the Bank, amounted to \$72,912,076, and the debentures in circulation to \$64,531,225. The profits were 33 per cent of the paid-in capital after setting aside the usual eight per cent for the reserve and an additional two per cent into a fund maintained for steadying the dividends.

The Noko Ginko, or local prefectural land-credit banks, were established by a law enacted in 1896, and all 46 banking institutions were brought into existence within a few years thereafter, each with a capital of \$149,400 or more. They may make long-time reducible loans for 30 years and term loans for five years for the same purposes, upon the same kind of security and conditions, and to the same classes of borrowers allowed to the central mortgage bank. The cooperative societies, to which they may grant unsecured loans, must be composed of at least 20 members with joint and several liability. These local banks also may receive bullion and negotiable instruments for safekeeping and accept deposits up to the amount of their paid-in capital. No limit is set for the deposits which may be taken in gold. They may also buy negotiable instruments and securities of other banks under regulations similar to those prescribed for the Central Bank. Bonds may be issued and put in circulation up to

five times their paid-in capital, but they may not be sold with a premium or prizes. The only relation of the Noko Ginko with the Central Bank is that the latter institution may guarantee and sell the bonds of the locals and advance them funds in case of necessity.

The Imperial Government appropriated \$4,980,000 as a subsidy for the Noko Ginko banks. This sum was allotted among the prefectures at the rate of 70 yen (\$34.86) for every 100 cho (245 acres), and was used by the prefectures for buying shares in the banks. No dividends were allowed on the shares so acquired for the first five years, and after that the dividends thereon were put into the reserves by order of a decree which required them to be so set aside for 15 years. The banks are supervised by high prefectural officers.

At the beginning of 1912 the capital of the 46 Noko Ginko banks was \$17,166,060, of which \$15,120,260 was paid up. The reserves were \$4,551,076, and the outstanding loans \$47,560,000, while a dividend was declared of 8 4 per cent.

The Agricultural Bank of the Philippines was established in 1908 on lines similar to the Egyptian institution. The Insular Government appropriated the sum of \$500,000 for its capital. The Bank is managed by a board of directors, composed of the Secretary of Finance and Justice, the insular Treasurer, and three members appointed by the Governor General with the advice and consent of the Philippine Commission. The first mentioned Secretary of Finance and Justice is chairman of the board and the insular Treasurer is manager.

The Bank may receive deposits from anyone, but it may grant loans to farmers alone, and to them only to lift prior encumbrances on agricultural lands, to aid in the purchase, cultivation and improvement of such lands, to purchase fertilizers, seeds, machinery, implements, and animals to be used exclusively in agriculture, and to pay the expenses of planting, caring for and harvesting farm crops and preparing them for the market. The smallest loan permitted is \$25 and the largest \$17,500. One half of the capital of the bank must be set aside for loans of not more than \$1,000

First mortgages, real or personal, are always required for security, and no more than 60 per cent of the value of the mortgaged property may be loaned. Loans are granted upon resolution of the board of directors, but no real-estate mortgage may be accepted until the title of the property has been passed on by the Attorney General.

This Philippine Agricultural Bank now has 24 agencies in active operation. It has invested in loans all its capital, besides a few thousand dollars of deposits received from the provincial governments. By order of the Governor General, not to exceed 20 per cent of the minimum which such deposits have reached during the past six years may be so invested. The Bank is authorized to make 20-year loans but none actually granted runs over five years. The maximum interest rate is ten per cent. Bonds or debentures may not be issued.

The State Advances Act of South Australia of 1895, with amendments of 1897 and 1901, authorized the creation of a state bank to be managed by five trustees and a general inspector appointed by the Governor, with power to issue mortgage bonds guaranteed by the state. Loans may be made to farmers, cattlemen, and other persons engaged in rural industries, such as freezing meats and the manufacture of dairy products and wines, for their particular purposes, and to public authorities for building bridges, wharfs, roads and making other permanent improvements. The term may be from seven to 42 years, and the amount may be, for mortgage loans, three-fifths of the value of the unimproved property plus one-third of the value of any improvement thereon, with a maximum of \$25,000 to any one person. The loans may be made either in cash or by exchanging the bonds of the bank for the mortgage of the borrower. Repayment is made by half-yearly annuities including an interest charge which must not exceed five per cent.

The Agricultural Bank Act of Western Australia of 1894, as amended by 1896, provided for a bank managed by a president appointed by the Governor for issuing government five per cent bonds. Loans may be granted to farmers for

making improvements, such as clearing, cultivating, ring-barking, fencing or draining the land, digging wells and constructing reservoirs, or erecting buildings for agricultural or pastoral use. The term may be for 30 years. The amount must not exceed three-fourths of the value of the improvements, with a maximum of \$1,000 to any one person. The loan is usually advanced as the improvements are made, and is repaid by half-yearly instalments of at least one-fiftieth of the principal, with six per cent interest.

The Advance to Settlers' Act of New South Wales of 1899 created a board of three members appointed by the Governor and financed by the sale of government stock bearing $3\frac{1}{2}$ per cent interest. Loans may be made to purchasers of crown lands to relieve them from financial difficulties due to droughts. The term is ten years and the maximum amount \$1,000. If the land is already encumbered the first mortgagee must give his consent before the loan may be granted.

The Savings Bank Act of Victoria of 1890 provided that commissioners of the savings bank may, from money obtained by the sale of government bonds bearing $4\frac{1}{2}$ per cent interest, make loans to farmers, graziers and truck gardeners or any persons engaged in agricultural, horticultural or pastoral pursuits, to assist them in paying off existing encumbrances on their lands and for making improvements. The amount may not exceed two-thirds the value of the land at the time the loan is made, or be less than \$150 or larger than \$10,000. Special provisions exist for various kinds of lands. Repayment is made in 63 half-yearly instalments, which, with $4\frac{1}{2}$ per cent interest included, must not exceed 6 per cent a year.

The Agricultural Bank Act of Queensland of 1901 created a commission of three trustees and a manager appointed by the Governor, and authorized the raising of \$1,250,000 either by appropriations by the legislature or by the sale of debentures secured by the consols of the state and bearing not over four per cent interest. Loans may be granted from this fund to homesteaders of crown lands for making numerous designated improvements. The amount is thirteen shillings in the pound of the estimated value of the proposed

improvement; no person may receive more than \$4,000. Advances are made generally as work on the improvement progresses, and are paid back in 25 years by paying five per cent interest for the first five years, and then by 40 half-yearly instalments of £4 0s 6d. in the £100.

State aid is granted in New Zealand for home colonization and closer settlement on lands acquired from private individuals as well as on the public domains. When private property is needed or desired for settlement, it may be compulsorily acquired if the Government and owner cannot agree upon the price. This state aid to settlers and homesteaders is distributed not through banks, public or private, but through special boards or commissions which are charged with the duty of making the loans out of moneys raised for the purpose by annual appropriations or by the issue of government bonds.

There are special rules and regulations for the various boards. Sometimes the land is sold to the settlers and sometimes it is leased. The Advances to Settlers Office illustrates in a general way the methods adopted by the New Zealand Government in carrying out its land-credit policy. This body is a governmental department, supplied with a capital fund of \$30,000,000 by the issue and sale of governmental bonds drawing not to exceed four per cent interest. Sums not in excess of \$7,500,000 in any one fiscal year may be raised in this way for the operations of the office. If the total amount is not needed within the year, the balance may be added to the amount authorized for any subsequent year. The bonds are redeemed from a sinking fund created by contributions of one per cent of the principal of loans made from the proceeds of the bonds.

Loans to settlers may be for ten years or under at five per cent per annum, or for $36\frac{1}{2}$ years repayable by a semi-annual annuity of three per cent. The smallest loan on rural property is \$125, and the largest \$15,000. For urban and suburban properties the minimum is \$1,250, and the maximum \$10,000. Prepayments are allowed and may be used for paying off entire annuities, or for paying off only that

portion of the annuity which represents the principal, or for a complete readjustment of the size and the length of the loan. First mortgages are always required for security. Three-fifths of the value is the very largest amount which may be advanced on any property.

In 1882 Mexico granted an exclusive monopoly for 20 years to one land mortgage bank on condition that it would supply all the needs for such an institution in the Republic. The condition was not complied with and the monopoly was annulled in 1897, on the passage of the act on credit institutions in which provision was made for a plurality of banks.

This act, amended in 1908, was largely the work of Sr. Joaquin D. Casasus, chairman of the commission appointed to formulate a bill to revise the Mexican banking laws, and his report prepared for the commission is a luminous and interesting treatise on the subjects studied. As recommended by Señor Casasus, there are now two kinds of financial institutions for assisting agriculture in Mexico, namely, land mortgage banks and promotion banks. These banks obtain their charters not from the states but from the federal executive. The minimum fixed for the capital stock is one million pesos (\$498,000), one-half of which must be paid up before beginning business. Twenty per cent of this sum must be invested in government bonds. Ten per cent of the net profits must be set aside each year for creating a reserve. The articles of agreement and by-laws of each bank must be submitted for approval to the Minister of Finance, who is charged with the general supervision of the banks.

The banks are supervised through inspectors permanently appointed for each bank, or through special inspectors appointed for particular cases, to whom the Minister may give such instructions as he deems fit. The inspectors must countersign all debentures, notes and bonds of the banks, be present at drawings of these instruments for retirement and at auction sales of properties taken in foreclosure, and see that these instruments of credit are not issued or left in circulation in excess of the legal limit. The periodical reports which the banks are required officially to make are submitted by

the inspectors to the Minister of Finance and published. Special proceedings are allowed for selling mortgaged properties in case of default which cannot be interfered with by other creditors of the delinquent debtor. The capital stock, shares and dividends of the banks are exempted from taxes, federal, state or municipal. The debentures, bonds and notes of the banks may be required to be stamped but five centavos is the highest tax. The states or municipalities in which the banks are located cannot tax them on their business. These tax exemptions endure, however, only for the first 25 years of a bank's existence. The only form of organization for which the laws provide is the joint-stock company. Landshfts or associations of borrowers are not allowed, so the banks bear the character of intermediaries between persons who have money to invest and rural or urban landowners who are looking for means to improve their property, pay off its encumbrances or increase its productivity. The banks themselves directly negotiate the credit instruments issued for financing these transactions, but are authorized to realize the loans in bonds or debentures instead of in cash if they choose and are able to do so.

A mortgage bank, under the Mexican law, is one which makes loans secured by urban or rural lands and issues interest-bearing bonds or debentures secured by such loans redeemable under fixed conditions or at fixed times. The loans may be for either short or long term. The former are those which whether payable in one or more instalments are in all cases less than ten years in duration. The long-term loans are those payable in not less than ten nor more than 40 instalments, whether quarterly, semi-annual or annual, comprising interest, a portion of principal and the commission of the bank. The loans must be secured by mortgages on unencumbered real estate located in the state in which the bank maintains its headquarters and must never exceed one-half the value of such property, nor may the annuity on the long-term loans be larger than the proceeds of the principal represented by the property estimated at stated rates as provided by law. The limit thus fixed for the loans must be reduced

to 30 per cent of the property's value when buildings constitute more than half of its value, unless the owner binds himself to insure the buildings for the entire period of the loan. The value is determined by experts appointed by the banks, unless the Minister of Finance allows the banks to operate on fiscal valuations.

The aggregate amount of the mortgage loans of a bank must never at any one time exceed 20 times its paid-in capital, nor may loans to a single person or corporation exceed one-fifth of that capital. Loans may be paid in advance either in whole or in part. If the mortgaged property depreciates in value, a bank may call upon the borrower to give additional security. Payments due mortgage banks for principal or interest cannot be subject to attachment, even though application be made therefor in due form before competent judicial authorities. In the event of default the banks have a summary legal process for foreclosure and sale which may not be interfered with by third parties. A bank may buy if there are no other bidders at the auction sale, but may not hold real estate over three years.

The nominal value of the debentures of a mortgage bank must never exceed the amount of the mortgage loans. The interest rate is determined by the bank. The denominations of the debentures are 100, 500 and 1,000 pesos (\$498). They are transferable by mere delivery from hand to hand or by indorsement, according as they are made payable to bearer or are in the name of the holder. They may be issued with or without a fixed date for redemption; if issued without a fixed date they are paid off by drawings. With permission of the Minister of Finance premiums and prizes may be allowed at the payment of either interest or principal. The drawings take place twice a year, and at each drawing enough debentures must be redeemed to keep the nominal value of those in circulation at a figure not exceeding the net amount of the outstanding mortgage loans. The drawings must be held in public after publication in the official newspaper, and must be presided over by a government inspector. One week after the drawing the numeros of the debentures retired must

be officially advertised and the date set after which payment shall be made. Debentures withdrawn by drawing lots must be canceled. Those acquired by purchase or from borrowers who use them for payments on their loans may be returned to circulation.

The debentures have a lien upon the mortgage loans superior to that of any other creditors of the bank. They may be issued in advance of the loans, but any loan made in money which has to be obtained by the sale of debentures or bonds must be on the condition that its completion shall depend upon the results of such sale. This enables a bank to finance its loan operations without touching its capital or other funds, but the equilibrium prescribed by statute between the debentures and the loans must be restored at the next drawing. In addition to the mortgages each bank must accumulate a special guaranty fund to assure prompt payment of the interest and principal of the debentures. This fund must always be larger than the aggregate amount of the half-yearly interest on debentures in circulation. Besides the tax exemptions already noted, the debentures have certain other privileges. They have right of property not only to the mortgages taken, but also to the reserves, guaranty fund, and capital whether paid up or uncalled for. Holders may bring summary action upon refusal of the banks to pay interest or principal when due after demand made therefor by a notary. The payment of principal or interest cannot be prevented or delayed by any judicial order, except when the debentures have been lost or stolen. The funds of corporations or incompetent persons may be used in purchasing debentures in all cases in which funds of such persons may be invested in real-estate mortgages.

Land mortgage banks may receive deposits only up to twice the amount of their paid-in capital and reserves. They must always hold in cash at least one-half of these deposits on sight or at three days' call. The other half may consist of sums immediately realizable or negotiable and of paper discounted for not longer than six months, the latter not to exceed 25 per cent of the whole amount of the deposits. The banks may make loans without mortgage for public works or improve-

ments by virtue of contracts entered into with the federal, state or municipal governments. These may be secured by the securities issued against the works or improvements in question.

The Mexican promotion banks, which are specially designed to encourage mining, agricultural and industrial enterprises, make preferred loans unsecured by mortgage, guarantee undertakings, and issue short-time treasury bonds or certificates running for a fixed time and payable on specified dates. They may make cash loans both to farmers owning and operating their own land and to tenants and other persons engaged in agricultural pursuits. Loans to landowners must not exceed three years and cannot be renewed. They may be granted for the payment of wages, the purchase of seeds, raw materials, implements and machinery, administrative expenses, and the upkeep or preservation of property. The loan contract must set forth the purpose of the loan and be sworn to before a notary public. When inscribed in the registry of deeds, it becomes a lien on the property which cannot be affected by any subsequent transfer by the owner. The size of such a loan must never exceed 15 per cent of the value of the property. It is the bank's duty to watch the use of the loan.

Loans to tenants or other persons engaged in agricultural pursuits on land not owned by themselves must not run for a longer period than two years. The security must be a chattel mortgage on farm products, crops, raw materials, live stock, implements, machinery or utensils. When the chattel mortgage is filed, it gives the bank a lien on the personal property described therein over that of any claimant with a subsequent title. The aggregate of the loans of these two classes which a bank may make must not exceed two-thirds of the amount of its paid-up capital and its treasury bonds in circulation.

Promotion banks have the same rights of summary proceedings to enforce their claims enjoyed by land mortgage banks, and are subject to the same rules governing loans on collateral made by banks of issue. The notes or other

security which promotion banks may discount or guarantee to facilitate negotiation must not run for longer than six months. The treasury bonds which they are authorized to issue must be redeemable within periods which may not be less than three months or more than three years. The amount of the treasury bonds of a promotion bank in circulation must not exceed at any one time double the paid-up capital stock. Such a bank is required to keep in cash on hand at least 40 per cent of the amount of its deposits payable on demand or within not more than three days, with the option, however, of substituting for cash up to one-half of this percentage securities which are immediately convertible. The remaining 60 per cent of deposits must be represented by paper discounted for a period of not more than six months.

The internal disturbances which have seriously interfered with all business in Mexico during recent years have prevented the development of banks under the land-credit law. The present prices of the debentures and bonds of the few banks in operation do not furnish a criterion for estimating their intrinsic value. The largest of the banks is the *Caja Préstamos para Obras de Irrigación y Fomento de la Agricultura*, or Institution for the Encouragement of Irrigation Works and the Development of Agriculture. The charter of this institution was granted by a special act in 1908. The initial capital was \$10,000,000 (Mexican) divided into three issues, of which one belonged to the Government, one to the four banks which participated in its formation, and one was sold to the public. The participating banks were authorized to sell one-half of their holdings.

The chief object in bringing this institution into existence was to take off the hands of banks of issue a lot of securities which they had acquired in financing irrigation and land-development projects. The Institution is empowered to grant loans secured by mortgage or pledge upon the guaranty of any of the four banks which participated in its foundation. It is authorized to issue debentures against these loans in the same way in which a bank of issue may issue notes. The debentures are guaranteed both as to interest and principal

by the Federal Government, which obligates itself to place at the disposal of the Institution the amount needed to meet all payments when due. The management of this semi-public land-credit and land-development institution is lodged in a board of 15 directors, of whom three are chosen by the Mexican Federal Government.

The Argentine Republic has three public land-credit institutions. The largest is the Banco Hipotecario Nacional founded in 1886. The Government guarantees the interest and the principal of the notes and bonds which this bank is authorized to issue for financing its operations. The bank may grant building loans in Buenos Ayres and in cities of more than 50,000 inhabitants to a total amount fixed for each branch by the board of managers. Ordinary building loans may not exceed 30 per cent of the value of the mortgaged property; special loans to owners of small lots in Buenos Ayres, up to \$5,790, 60 per cent of the mortgaged property; special loans for building workmen's dwellings, 60 per cent of the mortgaged property; special loans for afforestation and the construction of industrial plants within five kilometers of a port or railway station, 40 per cent of the mortgaged property; and loans on vineyards five years old, 40 per cent of the mortgaged property. In all these cases the loans are made not in cash but in notes of hand of the bank given to the borrower in exchange for his mortgage.

Cash loans may be granted by this Argentine National Land Bank on any lands for sums not exceeding \$1,930 or for a term not exceeding five years, repayable in lump or by instalments, to farmers up to 80 per cent of the value of the mortgaged property as determined by the assessment for the land tax, to a maximum of \$2,895; and for supplying dwellings with water, between the limits of \$482 50 and \$1,447 50.

The bank must not have more than \$386,000,000 (Mexican) of its notes of hand in circulation at any one time. In addition, however, it may, with the consent of the Government, issue \$28,350,000 of bonds to be used exclusively in making mortgage loans. The reserves of the bank must be increased each year by 30 per cent of the annual profits. This

fund must be invested in government securities. The rest of the profits may be used in making cash loans.

Land credit was organized in Chile while the Indian and buffalo in western United States could roam from the Gulf of Mexico to the Canadian border without crossing a railroad track or seeing the face of a white settler. Loans of 33 years, repayable by annuities, were being granted in Chile when the farmers of Kansas were losing their homesteads by the foreclosure of three- and five-year mortgages. Chilean mortgage bonds or debentures are officially listed on the Paris Bourse and have been made legal investments by the French Ministry of Finance for all purposes for which even government bonds may be used. They are bought also by English bankers and find a ready market in other parts of the European Continent where offers of American mortgage bonds would be refused.

The Chilean land-credit law was enacted in 1855, three years after that of France, and it has proved so satisfactory that very few amendments have been made. The law is a general one, allowing any persons who comply with its terms to form a company. A number of companies have been formed thereunder and are doing a good business. Nevertheless they operate at a disadvantage, because of the fact that the Chilean, like the French, Government organized a state bank under the general law, and although it has not given this institution a monopoly it has invested it with such privileges that no others can compete with it successfully. It holds two-thirds of the mortgages taken by bond-issuing land banks in Chile, and it is able to hold so many more than its competitors that it absolutely dictates the rate of interest.

This institution is called the Caja de Crédito Hipotecario, or Chilean State Land Mortgage Bank. It has no capital stock or shareholders. It is owned and managed by the Government, and the net profits are used for the benefit of borrowers or for creating or supporting savings banks. The President of the Republic appoints the managing director of the bank on his own motion, its secretary upon nomination of the managing director, and the treasurer,

cashier and inspector upon nomination of the board of directors. The board is composed of these officials, two directors elected by the Senate and two elected by the House of Representatives. One of each of these two pairs must be chosen from among the heaviest borrowers of the bank who are land-owners, but the positions are honorary and draw no salary. The powers and duties of the board are determined, within the scope laid down in the law, by the President of the Republic with the consent of the Council of State. Another feature peculiar to this bank is that the appraisal of properties offered for mortgage is made by a commission of experts appointed by the board upon nomination of the borrowers.

The Caja de Crédito Hipotecario lends on the security of unencumbered real estate situated in the Republic up to a maximum of one-half its value for ordinary borrowers, and of three-fourths its value for the purchase or construction of cheap dwellings; and without mortgage to a large irrigation company, created by a special act of 1908, up to a certain designated portion of the value of its assets and credit standing. The minimum loan is 500 pesos (\$104) on property worth at least 2,000 pesos (\$416), but the smallest loan actually granted is \$624 on property worth \$2,080. The loans are not made in cash. They are effected by exchanging the bonds of the Bank for the note and mortgage of the borrower, but as the Bank undertakes to sell the bonds without commission for the borrower, the loan becomes a cash transaction as a matter of fact.

These bonds are issued in series, either in the name of the holder or payable to bearer, in denominations of about \$20, \$50, \$100 and \$200. The issues in circulation include eight per cents redeemable within 28 years, seven per cents redeemable within 30½ years, six per cents redeemable within 33 years, and five per cents redeemable within 25½ years, to mention only those with the longest periods. The applicant who is granted a loan obligates himself to pay the interest on the bonds in which he chooses to have it made, together with the necessary instalments to effect the redemption of the bonds at their maturity and one-fourth of one

per cent in addition for expenses and reserve. These sums are combined to form an annuity, one-half of which must be paid every six months. In this way the borrower amortizes his debt to the Bank at and by the time the Bank is called upon to pay the interest and the principal of its own bonds to the holders. If the borrower should default his annuity, the Bank, by a special summary procedure may, after 30 days' notice, take possession of the mortgaged property and sell it at public auction. Besides this judicial privilege the bonds of the Bank have been made legal investments for all persons and purposes and have been purchased in large amounts by the Chilean Government, not only because of their intrinsic soundness but in order to give them a popular currency. The bonds are guaranteed by the state, which has for its own protection the mortgages taken from borrowers and the reserve. The reserve fund at present, however, is small, amounting to only 3.335 per cent of the face value of the total bonds in circulation. The state has suffered severe losses on several occasions on account of this guaranty.

The Banco Hipotecario del Uruguay, formerly a private company, was converted into a public institution about two years ago. It is authorized to grant loans up to 60 per cent of the value of the land. Its bonds are actively dealt in on the stock exchanges of Uruguay, and find a market in some European countries. The bonds are secured by the first mortgages taken for the loans, and are guaranteed both as to principal and interest by the Uruguayan Government.

In 1912 Costa Rica founded a state land mortgage bank similar to that of Chile. A new feature was added to the law, however, in order to force capitalists to buy the bonds of the bank. The deposits of all individuals and corporations in commercial and savings banks are taxed two per cent whether they are drawing interest or not. At the same time the bonds of the state mortgage bank were exempted from taxation and made lawful investments for the funds of guardians and trustees and acceptable by the state in all cases in which the law requires the deposit of cash or security to assure the faithful performance of public duties.

In 1911 the Territorial Bank of Cuba, a private joint-stock company with a capital of \$5,000,000 with right to indefinite increase thereof, was given an exclusive monopoly for 60 years to issue bonds or other instruments of credit on the basis of reducible short- or long-term loans secured by mortgage on real estate situated in the Republic. The maximum interest on loans is fixed at seven per cent, and the bank is required to devote a part of its capital to the needs of agriculture.

It remains to complete the survey of land-credit systems only to describe one of the latest of European development, the use of life-insurance policies as security for loans. During the first epoch of its history and even down to the middle of the past century, the institutions which handled life insurance were not all especially and exclusively devoted to that purpose, as is generally the case today. Banks and various moneyed concerns frequently carried on insurance in connection with their other business. To mention a few out of many instances, the Discount and Mortgage Bank of Bavaria, founded in 1835 at Munich, had life insurance as one of its objects. The Rent-Charge Bank, founded shortly afterwards in the Grand Duchy of Hesse-Darmstadt, issued and sold tontines and life policies. Several old trust companies in New York and Philadelphia are operating under charters with similar provisions, although they have not made use of them for many years.

However, finance and insurance are intimately allied, and the idea of protecting the claims of a creditor by insuring in his favor the life of the debtor was put in practice at an early date and is now gradually spreading. Another application of insurance quite common in European cities is the taking out of a policy by the purchaser of a dwelling to cover any balance of the price unpaid at his death, so as to save his family from the possibility of being deprived of the property by the mortgagee. This latter idea more recently has been adopted for country districts, and in Germany, Belgium, France and Hungary plans have been devised and actually carried out for completely replacing mortgages by

life-insurance policies as security for long-term mortgage loans.

The East Prussian Landschaft was the first institution to take such a step in Germany. In 1910 it created an insurance company and endowed it with \$240,000 in 3.5 per cent debentures. Policies may be issued on the lives of members of the landschaft and of all other residents of the province. The landschaft uses the annual instalments which its borrowing members pay on the principal of their loans as premiums on the policies obtained from the company, and in this way these members are insured up to the full amount of their loans without being required to pay anything in addition to their annuities. Other policy-holders also get cheap insurance, because the company is purely altruistic, distributes no dividends, large salaries or commissions, and so conducts its business at less cost than other insurance companies. Public insurance companies of a similar nature have been founded in West Prussia, Pomerania, Posen, and Silesia, with the assistance of the landschafts in some cases, with the object of dismortgaging the land, popularizing insurance among farmers, and preventing the large joint-stock companies from drawing money away from the agricultural regions.

In 1910 also France by law authorized the coöperative credit societies belonging to the system called the *Crédit Agricole* to accept the policies of the National Assurance Society in place of mortgages as security for loans made for acquiring or improving small homesteads. In 1911 Hungary followed by allowing the Hungarian Central Society for Cooperative Credit to do the same with members of affiliated coöperative credit societies, the company with which it was permitted to do business being the First General Hungarian Life Insurance Society. In both these countries the coöperative society may advance to the applicant or member a sum of money sufficient for him to purchase by one single premium a term policy for the length of the loan, to protect the society from loss of whatever amount remains unpaid should he die within that time. This premium is added to

the loan, and the policy is made out in favor of the society or assigned to it and used as security for its claims in place of a mortgage. In the event of death the cooperative credit society receives the proceeds of the policy from the insurance company, applies them towards settling all its claims against the decedent, and turns the property over to his heirs free and clear of all encumbrances.

This arrangement is available of course only for the sound and healthy, nor is it of much service to them unless they be under middle age and can obtain money at very low interest rates, in spite of the fact that the French and Hungarian insurance companies give a preferential rate of insurance to this class of business. This reduction is possible because the risk decreases as time progresses, since the loan is amortizable and the unpaid portion for which the insurance company is liable grows smaller year by year by the annuities or instalments on the principal which the borrower is obligated to pay every six months. In France, where the cooperative societies make loans at 2.5 per cent with money supplied by the Government, the annuity required for extinguishing a loan without insurance in 15 years is \$80.76 per \$1,000. For such a loan with insurance premium incorporated for a man between 30 and 31 years old, the annuity is \$88.75, a difference of only \$7.99 per \$1,000.

CHAPTER XIX

THE PRINCIPLES OF LAND CREDIT AND THEIR APPLICATION

Distinguishing Feature of Land-credit Institutions the Power to Issue Debentures—These Not Possible to Usual Money Lenders.—Private Institutions and Landschafts—Loans Made to Special Classes—Regulations and Powers.—Organizations of European Countries Compared.—Security of Loans.—Unrecallable Long-term Debenture Necessary for Long-term Credit—Situation in United States and Europe.—Comparison of Silesian Landschaft and Possible Organization in Kansas.—Wisconsin Land Mortgage Associations Act—Land Bank of the State of New York—Rural Business of Savings and Loan Associations—Ohio—Collective Saving Different from Cooperative Credit.—Desirability of American Landschafts

THE foregoing chapters show the various forms which land credit has assumed in the European and the few other countries in which it has been organized. They do not attempt to give, of course, a full account of all institutions actually existing. This would have involved useless repetition, since many of them are exactly alike. Nor has more than passing notice been directed hitherto towards individual money lenders, companies and banks which take mortgages of real estate simply by way of investment for otherwise unproductive funds, because there is nothing of especial interest in their methods except in Germany, Great Britain and Ireland.

In Germany a very heavy business in second mortgages at high interest rates is done by individual money lenders, because of the fact that a borrower is unable to realize on the full credit value of his property in a loan from the land-credit institutions on account of their exceedingly conservative appraisals and the wide margin demanded for security.

In Great Britain and Ireland there are no private bond and mortgage institutions, except for land improvement projects. Some attribute their absence to defective registration laws, but it is perhaps due to the firmly established custom of according land credit on recallable loans and to the very satisfactory results of this practice which arise from local conditions.

As a rule in the British Isles the principal of a recallable loan may be recovered within a few weeks at the will of the lender, who may exercise this right to raise the interest rate whenever money is dear. As a matter of fact, however, this is rarely done, or if it is done the rate written in the mortgage is quickly restored, because the English market, regulated by the great mart of London, is generally steady. As a consequence, interest rates in the British Isles compare favorably with those in countries where land credit is highly organized, and there is thus no pressing need of substituting special institutions for the present English system of private money lenders, individual or incorporated.

With the exceptions noted, nothing material to the subject has been omitted from these chapters, while every original type of land-credit institution or system and important variant has been described with sufficient clearness, it is hoped, to furnish a basis for a brief analysis and explanation of their underlying principles. The distinguishing feature of land-credit institutions, it will be recalled, is the power to issue interest-bearing mortgage bonds or debentures. European land-credit laws relate only to institutions having or seeking this power, and institutions are hardly considered to have a land-credit character in Europe until they are so empowered. Furthermore, the granting of long-term loans, that is, for periods of 10 to 75 years or more, is so generally their practice, that it may be said that this is the chief if not the only reason for bringing them into existence. There are notable exceptions in this regard, as, for instance, the joint-stock land mortgage banks of Germany. These banks, however, operate in a large measure with their own capital stocks and demand urban properties as security

for practically all their loans. There are no exceptions in the case of institutions dealing exclusively or to a large extent with rural properties.

A farmer who makes his living solely by agriculture cannot pay the purchase price of land or the cost of permanent improvements except as he recovers their value from the net gains of his industry, the surplus after he has paid his taxes, interest, and cost of upkeep and repair of his property and the support of himself and family. These gains come as much from manual labor as from the beneficence of nature. Like the proceeds from all manual labor, they are slow in accumulating, and unless artificial or outside means are employed, they diminish as the years advance and the fertility of his land is exhausted. He is his own hired hand, worked the harder because he is his own employer, giving to others the larger portion of the fruits of his toil until he owns his farm free and clear of all encumbrance. After that, he becomes a capitalist, it is true, but still a laborer, a capitalist-laborer, the productivity and increase of whose capital depend constantly upon his own personal labor and supervision. His only alternative is the temporary and uncertain tenure of a rent-paying tenant.

With the annual yields of capital thus limited by the personal supervision and labor actually applied to it, a farmer should not expect to be supplied with money for lifting old debts or acquiring new property by individual money lenders, savings banks, commercial banks or any concerns that require a reasonably quick turnover of their funds. The maximum time allowed for paying off loans for such purposes is 30 years in Finland, 33 years in Chile, 36½ years in New Zealand, 42 years in Australia, 50 years in Italy and Japan, 54½ years in Austria, 55½ years in Russia, 56½ years in Germany and Sweden, 57 years in Switzerland, 60 years in Denmark, 63 years in Hungary, 68½ years in Ireland, and 75 years in France. And the annual dues, including interest, cost of business, and the fraction of the principal required of the borrower for amortizing the debt, form an annuity of only 3½ to seven per cent of the principal of

the loan. In other words, the farmer in the countries named is given at least one generation and in some cases more than two generations for paying back a loan, as against three to five years in the United States, while the annuity is smaller on the average than the interest rate alone in the southern and western states. This annuity is always so fixed as to leave the farmer enough of his revenues to live on and pay ordinary expenses, and thus never being called upon to pay in lump at a time when it might be difficult or disadvantageous for him to do so, he is able gradually to relieve himself from debt by the yearly returns from the soil.

These long-term reducible mortgage loans are never granted by individuals or ordinary money lenders. They are granted only by the land-credit institutions from funds practically all drawn from the investing public through the issue of mortgage-bonds or debentures. These institutions are either public or private, though a more exact classification would include a separate heading for such as are semi-public. The pervading presence of the state in Europe at the initiatory stage of many of the old institutions, however, often makes it difficult to distinguish between the semi-public and the one or the other of the main classes. The public institutions, owned and operated by the state, are usually mere governmental bureaus without share capital, which obtain funds for granting loans either by appropriations or by the issue of debentures guaranteed by the state. The profits, if any, are used for extending business, set aside for meeting losses, or devoted to some public purpose.

The private land-credit institutions are either associations of borrowers or joint-stock companies. The semi-public land-credit institutions, or those in which the state is a part owner, participates in the control or management, or assumes a responsibility of some sort, may be similarly classified. The joint-stock companies aim to make profit and, unless they are semi-public, strive to declare as large dividends as possible. The proportion of the surplus which may be annually distributed in dividends is never limited, provided the institution is not purely eleemosynary, but it may

be subject, however, to a regulation, such as that all profits over a five per cent dividend on the capital stock each year shall be written to the reserve until this fund equals one-half of the capital stock.

The associations of borrowers, or *landschafts*, have no capital stock or lucrative object, and if they happen to accumulate a surplus from earnings or savings, it belongs to the members and is distributed in rebates of principal and interest in proportion to the amounts paid up on their loans. The old German *landschaft* is the original type of land-credit institution. Modified forms of it exist in Sweden, Denmark, Russia, Austria-Hungary, Roumania, Switzerland, Italy and France. Except in Denmark, the *landschafts* are distinctly rural, being composed almost entirely of owners of farm lands and confining their business to granting long-term loans on such lands of their members.

The plans of administration of the European land-credit institutions are similar in the one respect that they are all based on the general idea of vesting the control of the institution, the actual management of its business, and the inspection and audit of its affairs in three separate and distinct bodies of officials, the last of which is absolutely independent of the others. The first body is the board of directors or executive council, which includes the president, elected in the private institutions by the shareholders, and in the *landschafts* by representatives of the members with approval of the Government. The second body is composed of the president or managing director and vice-presidents charged with such duties as he or the directors assign to them. For the third body there is sometimes a standing committee of auditors elected by the shareholders or appointed by the Government. In Germany the Government appoints a fiduciary agent for each land mortgage bank, who holds in trust all mortgages used as security for bonds and countersigns all bonds issued. But whatever the method of selection, the supervisory authority may sit at all meetings of the officials and shareholders, may inspect all books, cash and accounts, and may put a stop, either by direct action or by appeal to the

Government, to any transaction of which he disapproves. These supervisors, inspectors, censors or auditors, although they may be paid by the institution, are in no wise beholden to it. Their chief functions are to stand between the institution and the bondholders, to protect the interests of the latter, and to prevent violations and transgressions of the laws. They and the responsible head of the institution—the president in some countries, the board of directors in others—are amenable to the Government for the proper conduct of the business and affairs of the institution. The Minister of Agriculture or the Minister of Finance, acting directly or through a commissioner or bureau, is designated as the general supervising authority, and periodical reports must be filed with him showing the interest rates and amounts of loans made, repaid and outstanding, the amount of debentures issued and in circulation, and their interest rates and market quotations.

The business of the European private land-credit companies or banks usually embraces, besides mortgage loans to individuals, loans without mortgages to railroads, public-utility corporations, municipalities, public corporations and co-operative societies. Indeed the greater portion of their business consists of loans to incorporated and associational borrowers and large landowners. Loans for small sums constitute a meager proportion and the amount of long-term, reducible or amortizable loans is negligible. There are two reasons why the private land-credit companies or banks of Europe do not handle many small or long-term reducible farm mortgages. The first is that they find it more easy and profitable to make loans on urban properties or to the various corporations and municipalities which the laws permit them to finance. The second reason is that few of them have the necessary standing and confidence of the public to enable them to issue and negotiate unrecalable long-term debentures. An investor will not buy a bond which has no set time for redemption or the return of the principal unless the issuing institution is so large and solid that there is no question of its endurance and solvency. So, failing in at-

tracting money for long term from the investing public, the European private land-credit companies or banks are not in a position to grant long-term loans to any great extent.

The European public land-credit institutions make loans only for specific purposes or to special classes of persons. Hence, unlike the private institutions, they require that the money obtained on a loan shall be used for the particular object for which it was requested and granted. All of them were organized and still are operated either for financing land reclamation and improvement projects, or else for carrying out the policy of the Government in respect to the erection of dwelling houses for workmen or the creation of small holdings for poor farmers. The first class of public institutions may extend financial aid to rich or well-to-do farmers. They grant credit not only on the actual present value but also on the estimated value of the land as reclaimed or improved. This means that the security is in part personal or speculative, and thus they do not all come within the strict definition of a land-credit institution. The second class of public land-credit institutions never assist farmers or persons who are able to take care of themselves. Their sole object is to help the poor whose condition is so abject as to preclude them from credit from any other source.

The well-to-do European farmer is yet too proud to seek free or cheap money from the state to enable him to acquire or improve a farm. There are, however, conspicuous exceptions in Russia, where the tenure of land is still undergoing readjustment as a result of the abolition of the feudal system in 1861, and in Great Britain and Ireland, where the nationalization of all land is making headway through the socialistic tendencies of the Government. Much of the land-credit legislation of many European nations was enacted with the object of enabling poor and dependent persons to acquire dwelling houses or small holdings. In fact, only in Germany, France, Sweden, Denmark, Russia, Switzerland, Austria-Hungary and Italy are there mortgage-bond or debenture-issuing institutions which do any considerable business with the owners of large or medium-sized estates, while in these

countries that part of the business which consists of long-term loans is handled almost exclusively by landschafts or semi-public land-credit institutions. Private institutions seem to be unable to grant loans for a longer term than five or ten years at most.

The rules and regulations which govern the operations of these institutions are very strict. The size of an individual loan is rarely over two-thirds the value of the mortgaged property, carefully calculated by arbitrary formulæ. Usually it is one-half the value, and only properties yielding or capable of yielding a steady and permanent revenue may be used for security, the general rule being that the revenue must equal at least the annuity which the borrower obligates himself to pay.

The loans are secured by first mortgages and are repayable by annuities. The institutions have the advantage of special summary legal processes in order to protect their rights and assure prompt and regular payments. These relate to the proving of the title of the property offered to be mortgaged and to the recovery of defaulted dues. The processes for proving title are similar to the Torrens system, speedily settle questions affecting the title of the land, and enable the owners to obtain loans without delay. In substance this process consists simply in publishing a notice in the official newspaper of the fact that a mortgage is about to be placed upon the property described, and warning all persons who claim an interest therein to present their claims for adjudication within a few days or weeks. If such claims are not presented within the time allowed or if they are thrown out of court, the institution may safely grant the loan because no person with a hidden or prior claim can attack its rights under the mortgage.

The process allowed for the collection of defaulted dues from borrowers is equally swift and effective. The mortgage on property the title to which has been adjudicated by the process described makes the institution practically the owner of the property until the loan is completely extinguished. It has the right to take possession of the property

upon non-payment of a defaulted annuity after legal demand without appeal to the courts or intervention of law. The delinquent cannot dispute the records of the mortgage nor the entries in the books of the institution. Moreover, no third party may interfere. The claim of the institution takes precedence over every other claim except taxes, and even the courts cannot issue an injunction against it. The institution's officers or agents have powers as public bailiffs or constables, and may hold the property and farm or rent it until the defaulted annuities have been entirely recovered. If this sequestration is not effectual in realizing the claim, the institution may then request the court for judgment against the debtor and an order of sale against the mortgaged property. The court must render its decision summarily upon the documentary evidence furnished by the institution. No oral evidence need be heard. If the debtor or a third party be aggrieved his remedy lies in a separate suit for damages, in which, however, this decision of the court cannot be collaterally attacked. These drastic proceedings for the recovery of debts are not allowed private land-credit institutions, but they are always given to public and semi-public institutions and *landschafts*. They may be resorted to not only for defaults but also when the value of the mortgaged property becomes impaired or the borrower violates his contract in any way.

A study of the European situation shows that Germany, Sweden, Denmark, Switzerland and France have the best systems of land credit. The German system consists of provincial *landschafts*, provincial public banks, and land mortgage banks organized under an imperial law. Absolute freedom of action is allowed by the laws, and as a result institutions of every known variety operate side by side in Germany in free and open competition. Land credit is not cheaper is at least more facile there than in any other country.

In Sweden a central semi-public institution, created by a special act, operates in conjunction with ten district land-mortgage associations similarly created, and none other may be formed without the consent of the Crown. The central

institution, called the Swedish General Mortgage Bank, advances money to the district associations upon the assignment of mortgages which the associations take from members. Members of each association are jointly and severally liable for the money so received. The objectionable feature of the Swedish system is that the bank is too closely connected with the Government and enjoys a monopoly.

In Denmark there are 14 land mortgage associations of the *landschaft* type for first mortgages, and nine for second mortgages on small estates. The Danish associations are the best adaptation of the *landschaft* outside of Germany. The nine associations for granting loans on second mortgage on small estates are the only ones of their kind in Europe, and the only other country in which their practice is followed is in the United States, by the Jewish Agricultural and Industrial Aid Society.

In Switzerland there are semi-public institutions in the various cantons. The Land Mortgage Bank of Berne is the most important. It requires the guaranty of a commune on every loan it grants to an individual. Its objectionable features are that it has too many different powers and that the canton is a part owner of it.

In France one large semi-public institution has been accorded such valuable special privileges that it has been able to kill off competition and obtain a practical monopoly. This institution is the *Crédit Foncier*, which has been the model in Europe for nearly all central land-credit banks of the joint-stock variety. The appointment of the president, vice-presidents, and three of the directors by the state assures publicity and honesty in management. Its objectionable feature is the awarding of prizes at the drawing of debentures for retirement.

Institutions available for landowners in restricted areas exist in a few other countries. In Russia there is a land mortgage association of the *landschaft* type for Finland, a territorial credit institution of the same type for the Baltic provinces of Livonia, Esthonia and Kurland, and an institution for granting long-time loans to noble proprietors in

Poland. In Austria-Hungary there are several associations of the *landschaft* type which cover a certain portion of the dual kingdom. Northern and central Italy are served by one large joint-stock mortgage company and a number of benevolent savings banks. The Italian laws do not contemplate monopoly. However, they require a special license for each bank and at present these banks monopolize the field in their respective areas.

Loans granted by private land-credit institutions as a rule are in cash, but those granted by *landschafts* are in debentures of the exact amount and interest rate of the note and mortgage for which they are exchanged. Semi-public land-credit institutions also sometimes make loans in debentures. The borrower obligates himself to pay the interest of the debentures he receives, and in addition thereto his share of the cost of running the *landschaft* and keeping up the reserve and a fraction of the principal of his loan each year. These items form his annuity, which is divided into halves and paid semi-annually. When the annuities are collected by the *landschaft* they are split up into their component parts for their proper uses, and the fraction of the principal which the borrower pays to extinguish his debt is placed in a sinking fund for the amortization of the debentures. Borrowers have the right to hasten the extinction of their loans by making voluntary payments into the sinking fund. Moreover, on certain conditions they may withdraw the balance to their credit in the sinking fund and use it as a new loan, thus continually renewing their credit as they please.

This sinking fund is not left to accumulate until it equals the aggregate amount of a series or any given amount of debentures, but every six months a drawing is made and debentures are selected by lot, according as their *numeros* come out of the wheel, for retirement up to the amount of money on hand in the sinking fund. In Italy and Japan debentures must be withdrawn not only up to the amount of money on hand in the sinking fund, but also up to that amount as increased by the addition of the amount of the

defaults of debtors during the preceding six months; this wise provision of the Italian and Japanese laws prevents bad loans from long being used as security for debentures. If the sinking fund is not disposed of by retiring debentures, it must be used in making new loans or in buying up the institution's own debentures for cancellation or investment. Consequently, there is no cash lying idle in the sinking fund to tempt officials into speculative ventures or into carrying on any business other than that for which the institution is intended. The reserves must be employed in the same way or invested in bonds of the Government, municipalities or government railroads. Reserves are obligatory for all kinds of institutions.

By reason of the peculiar method of making loans, the *landschaft* does not need to have a capital stock or to keep large funds on hand. Nor is it necessary for it to hire agents to sell its debentures. The borrowers act as its agents, except where bureaus have been opened for their convenience. The debentures are not issued in series but bond by bond as members avail themselves of their credit; thus a mortgage loan is taken before each debenture is issued and the retirement of the debentures keeps pace with the paying off of the loans. Consequently, the face value of the debentures in circulation never exceeds the amount of the outstanding loans. The preservation of this equilibrium is the only limit fixed for the amount of the loans which may be granted or the debentures which may be issued. Within this limit the *landschaft* may continue its operations until all the demands in its territory have been supplied. The Danish *landschaft* associations for large estates arrange their members in groups according to the periods in which they join, and the individuals of these groups are severally and jointly liable on the debentures exchanged for their own loans but not for loans to individuals of other groups; to that extent the debentures in Denmark are issued serially.

The debentures of joint-stock land-credit institutions are usually issued in series, authority being obtained therefor from the Government upon resolution of the board of direc-

tors, but are never negotiated in advance of making at least an equal amount of loans. The rule prescribed for the *landschafts* for preserving the equilibrium between debentures in circulation and outstanding loans applies also to them. In addition to this the extreme limit of debenture issues is fixed at a certain number of times the capital stock and reserve. The maximum for the land mortgage banks of Germany is 15 times, and for the *Crédit Foncier* of France 20 times, the capital stock and reserve. The purpose of this additional rule is to prevent a company from becoming too large to be managed properly and from absorbing the entire business of the country. Usually the debentures are negotiated to recoup the amount taken out of the capital stock or other funds of the issuing company for loans already made. The *Crédit Foncier* of France, however, may sell debentures for the purpose of financing loans yet to be made, but the proceeds of the sales must be invested in government bonds or similar safe security pending their regular employment.

Loans made by the joint-stock land-credit institutions may be for the same periods and for the same amounts in proportion to the value of the mortgaged premises as those of the *landschafts*. There is a difference, however, in the uses made of the annuities. The joint-stock institutions usually include the costs of business in the computation of the interest rate and always deduct a portion for profits. Nevertheless, the actual charge to borrowers is about the same in both kinds of institution. This is due to the fact that any advantage which the *landschafts* may derive from the gratuitous service of officers and the compulsory service of members is offset by the cumbersomeness of their bureaucratic methods and by the superior energy of the officials of the companies, who are spurred on by good salaries and the demand of stockholders for dividends.

The regulations in respect to the investment of the sinking fund and the retirement of debentures are the same for all concerns. Debentures must in all events be redeemed at par regardless of their market quotation at the date of issue or redemption. If the debentures of a *landschaft* are dis-

counted below par, the borrower loses the amount of the disagio; but, if a company negotiates debentures below par, it must foot the loss, of course, since the sales are made on its own account and not on that of its borrowers. The retirement of debentures by drawing lots subjects the holders to the possibility of having their money returned to them when they are least able to reinvest it profitably. This inconvenience is compensated in some countries by allowing the companies to redeem with premiums. The *Crédit Foncier* gives prizes; this is one of the special privileges which make this great bank the dictator of land credit in France.

The debentures are secured, first, by the mass of mortgages taken for the loans, next by the reserves and in some instances the guaranty fund, and finally by the share capital in the joint-stock companies, by the collective liability, limited or unlimited, of members in the *landschafts*, or by the guaranty of the state in the public or semi-public institutions. Sometimes in the latter institutions a fund created by subsidy is substituted for the state guaranty. Inasmuch as the debentures are not recallable except at the will of the makers, the holders may not touch the principal until it has been declared to be due after the drawings, and even then they have not always the right to sue the institutions for it. Sometimes debentures are worded to be redeemed within a specified period, as 25, 50, 75 or 98 years, but this does not alter their effect. The assets, including the annuities due from the borrowers, are protected from all litigation except bankruptcy proceedings. The debentures are merely certificates of indebtedness secured by a floating charge against the general assets and standing of the issuing institution, although in the event of the winding up of its affairs, they would have a lien prior to all other of its creditors on the mortgages used as the basis of their issue.

The unrecallable long-term debenture is absolutely essential to the according of long-term credit. No concern could grant long-term loans if it were required to retire debentures at a faster rate than it can refund the principal by the annuities received from its borrowers. The great obstacle to the

organization of land credit is the difficulty of popularizing the unrecallable debentures, of selling bonds which contain no clause obligating the maker to return the investment to the holder at some fixed date. With the view of overcoming this difficulty, all countries have surrounded the issue of these debentures with safeguards and attached certain privileges to them so as to make them attractive to investors. They may be drawn in denominations as small as \$20, payable to bearer or in the name of the holder as preferred, and may be purchased in instalments. As a rule they are not taxable either at issue or transfer. Whenever they are taxed, it is done indirectly by taxing the institution itself on the total amount of debentures issued or on its business or assets. The debentures are exempt from seizure and sale on execution, and are usable by the Government, courts and trustees for investment of all kinds of funds. The debenture is considered a real-estate security to the same extent as the underlying mortgage and far superior to it because of the fact that the debenture splits up the loan into easily negotiable parts.

Thus, in all European countries where land credit has been organized, the safest kind of securities available for large and small investors are these privileged debentures secured by mortgages on properties with unassailable titles, ordinarily worth twice the face value of the mortgages. The payment of interest and principal is assured by strict governmental supervision which prevents over-issue and which reserves the annuities of borrowers for their ultimate redemption. The older the debentures become the sounder they are, because of the fact that their sinking fund is constantly increased by the annuities paid into it, or else that the liabilities of the institution are reduced by the half-yearly retirements of other debentures. The savings of the poor as well as those of the rich are readily attracted by these absolutely safe and highly negotiable securities, and as a result there is no European *landschaft* or semi-public land-credit institution which does not find all the funds it requires at the lowest interest rates for making long-time loans to its borrowers. Such facilities, however, are not possible at present

in the United States, where the land, the mortgage, and the debenture all are taxed. This triple taxation will have to be removed if American farmers hope to obtain cheap land credit

Besides this favorable legislation for debentures, the tax exemptions and the special proceedings allowed for examining titles and recovering loans, some of the land-credit institutions have been granted monopolies and many are allowed the free use of the mails. None has to register its mortgages every ten years as is required of ordinary lenders. In France the *Crédit Foncier* enjoys the free service of the internal revenue officials for collecting and paying interest, annuities, and principal on loans and debentures. In former times subventions were frequent. Some of the *landschafts* of Germany and Denmark, the *Crédit Foncier* of France, the Mortgage Bank of Berne, not to mention others, received subsidies from the state at their establishment. The subsidies took the form of donations, loans without interest, the purchase by the state of shares of the capital stock, the guaranty of debentures, or the investment of public funds in the debentures. But financial assistance is now no longer extended except to institutions organized to help the poor to acquire homes or small tracts of agricultural lands

In the United States there is not a peasantry and proletariat, except possibly among the southern negroes, so weak and benighted as to need free money and state aid to enable them to earn a living. State assistance of a general nature may be extended without objection or danger in the early stages of the organization of land credit. The state may preside at the formation and even assist in the administration at the beginning in order to give a proper direction to the development of land credit. It is clearly the state's duty to remove all obstacles which prevent the borrower and lender from meeting on equal terms, and it should continually exercise rigorous supervision and inspection for the purpose of safeguarding borrowers from usurious oppression and the investing public from dishonest and incompetent management. The state may intervene in the event of overwhelm-

ing emergency to help farmers to recover from the effects of droughts, floods, wars, public disorders, and widespread devastations due to natural causes, or to finance projects too great for individual enterprise, such as the reclamation of large areas by drainage or irrigation. The use of the state's guaranty or of public funds for ordinary needs of farmers, however, would be class legislation which would work an injustice to the rest of the population and sap the virility of the intended beneficiaries. In nearly all countries in Europe where direct financial aid has been granted it has led to bureaucracy, favoritism and politics. The sole function of the government in a republic composed of intelligent and independent citizens should be to open the way for entire freedom of action and to stimulate private initiative and competition by permitting land-credit institutions of various kinds to be formed under general laws.

In Europe the land-credit institutions of the joint-stock and dividend-paying type which grant long-term loans are formed along the general lines of the *Crédit Foncier*. With a few exceptions the scheme of organization and administration and the business methods of the great French model have been more or less closely followed by all of them. The ultimate security of their mortgage bonds or debentures is their capital stocks, but the ultimate security of the debentures of the associations of borrowers is the collective liability, limited or unlimited, of members. These associations are of two classes, those which are private groups of individual borrowers without any special privileges or connection with the government, and those which are semi-public or public in character and possess all the various privileges which have been devised to facilitate land credit. The originals of the latter are the Prussian *landschafts*, with which the idea of collective liability of borrowers and also of the debenture was conceived. The collective liability of groups of borrowers has proved satisfactory and popular wherever employed. The Prussian *landschafts* are generally recognized as nearly perfect in respect to organization and administration, while it is also believed that if their business methods

were modernized and made less cumbersome, they would be the best institutions in Europe for according long-time credit on large or small farms.

Could *landschafts* be instituted in the United States? Is there a field for extensive operations and usefulness for such organizations, the oldest of land-credit institutions, which have been diffusing long-term credit on farm lands in Prussia for a century and a half, have spread over almost all of Germany, Sweden and Denmark, and have been introduced in other European countries? The question deserves an answer because no *landschaft* has ever failed and all have been able to find credit for their members at the lowest interest rates and easiest terms. The answer can be best arrived at by recapitulating the description already given of the Silesian *landschaft*, the first one formed, and then trying to see whether in theory a similar institution could be adapted to any state of the Union. Kansas, where agriculture was demoralized in part 20 years ago by faulty methods of credit, may be used for this purpose, in comparison with Silesia, where farmers are able to obtain long-term credit on the easiest terms through the *landschaft* which has been operating with uninterrupted success since 1770.

The Silesian *landschaft* is not a joint-stock company or even an association, properly speaking. It is a financial system created by the state and made a part of the state, but the state receives no dividends or compensation from it, since any profits made are devoted to paying off the principal or reducing the interest of the loans of borrowers. Its sole object is to find cheap long-term credit for farmers, and with this in view it strives to make the debentures which it is authorized to issue the safest securities which can be bought in the market. Silesia is divided for the administrative purposes of the system into nine districts which in their turn are subdivided into two or more circles, in much the same way as Kansas is divided into districts and counties for judicial purposes.

The head of a circle is a superintendent elected by members of the system residing within the circle. The head of

a district is a manager appointed by the Crown upon nomination of the members of the district. The head of the entire system is the president appointed by the Crown upon the nomination of all members voting by districts. Associated with him are three vice-presidents similarly appointed. The president and vice-presidents with two general counselors selected by them constitute the executive council, which passes finally upon the loans applied for by members, and makes them by exchanging the landschaft's debentures for the borrowers' notes and mortgages. Each district has a district board composed of the manager, the superintendents of the circles and a lawyer selected by them for its attorney. The boards pass in the first instance on all applications for loans coming from persons within their respective areas, and attend to the sequestration of properties and foreclosures of mortgages in cases of defaults. In each circle there are periodical meetings presided over by the superintendent, and at which all borrowers who are not in default on their mortgages or who have not violated their contracts in any way are entitled to be present and vote as members.

The business and affairs of the Silesian landschaft are conducted by these official central and district bodies. All owners of farm lands within the area over which the landschaft exercises jurisdiction have right to become members of the system, but members have nothing to do with the admission or expulsion of members or with the granting, recalling or renewing of credit. Their powers are confined to voting at the elections for officers and for delegates to the general assembly of the landschaft, upon resolutions submitted to them from the boards or council, upon the annual budget, and upon the question of raising funds for the landschaft when necessary. The landschaft, however, rarely needs money. Members may be compulsorily required to act as appraisers or caretakers of any properties falling into the possession of the landschaft, under pain of having their loans recalled in case of refusal so to act.

The supreme authority in the landschaft is the general assembly. This body is composed not of members but of

delegates elected by the members. It is convened only upon emergencies and is represented in the interim by a permanent committee composed of the executive council, the district managers, and a delegate from each of the districts elected by the members thereof. The landschaft is subject to the general supervision of the Minister of Agriculture through a special commissioner who makes regular inspections and receives the annual reports. Full particulars of the powers and duties of the officials as well as the steps which members may take on their own initiative for certain purposes may be obtained by rereading the description of this Silesian landschaft. It must be remembered that the landschaft does not make loans in cash. It simply issues guaranteed debentures to borrowers on their notes and mortgages and undertakes to collect the borrowers' annuities and pay to the holders of the debentures the interest and principal as they become due. The debentures are of two kinds, on one of which the members are collectively liable without limit, while on the other this liability extends only to the members of the respective districts.

Now if Kansas should adopt the landschaft, it could have two landschafts each operating over an area at least equal to that of Silesia, but preferably it should have but one, under the supervision of the state bank examiner. The law enacted for its establishment would divide the state into 20 districts, assigning to each district about five counties, and provide for the election of the necessary officials to be appointed every six years by the Governor upon nomination of the members of the system, exactly in the way in which this is done in Silesia. These officials would serve without pay, and after the first term they would be selected from among the borrowers of the system. All resident citizens who owned farm lands free and clear of encumbrance would be allowed to obtain debentures from the landschaft up to two-thirds the value of the mortgaged property. The law should contain a provision that it could not become operative in any district except upon the request of farmers with properties of an aggregate value of, say, \$1,000,000.

All borrowers would be made collectively liable without limit for debentures issued to members within their districts. A person would become a member upon obtaining this credit, and his mortgage would be so drawn as to give the landschaft immediate possession in case of default or whenever the landschaft should deem its security impaired or insufficient. Upon the extinction of his debt a borrower's liability would cease along with his membership. The expenses of the landschaft would be met by a small percentage added to the interest rate. Each borrower also would be required to pay a fraction of his principal every half-year, and also a small contribution for forming a reserve which eventually would become large enough to cover all possible losses and save borrowers from ever being assessed on their collective liability. The reserve and the sinking fund would have to be invested in debentures of the landschaft or in bonds of the state, municipalities or public corporations in Kansas. The sinking fund would be employed every half-year in paying off debentures retired from circulation by drawing lots.

So this system of land credit, if adopted for Kansas, would not call for any subsidy, expenditure, guaranty or liability on the part of the state or any subdivision of the state. It would be based on the security of the combined farm lands only of the persons who might wish to use the system's credit facilities, and would enable the Kansas farmers to convert all their three- and five-year mortgage loans into long-time annuity contracts running for any periods they desired, even up to 75 or 100 years, and repayable out of the annual farm profits at a rate of interest as low as that at which the state itself can borrow money. Surely the landschaft idea will be introduced sooner or later into some of the states of the United States, either as private or semi-public institutions, in view of the fact that it has proved its efficacy for easy long-term credit for farmers in eight European countries.

Wisconsin passed a Land Mortgage Associations Act in 1913 which has been widely heralded as a step towards the organization of land credit on correct principles for agriculture and cooperation. The Act, however, is nothing of

the sort and adds very little to legislation on the subject already existing in the state. The associations contemplated by this Act are mere private corporations with fixed capital of a minimum of \$10,000 divided into \$100 shares. Their powers are to issue bonds on the pledge of first mortgages given as security for loans on farm lands, forests and dwelling houses located within Wisconsin. The loans are not confined to shareholders but may be granted to any competent person offering such security. Hence the associations are not landschafts or associations of borrowers, nor are they even cooperative, but are simply plain bond and mortgage companies.

The bonds, the circulation of which for each company is restricted to 20 times its capital and surplus, have been made legal investments for trustee funds and public moneys and may not be taxed if the taxes on the mortgaged properties have been paid by the mortgagor or the company. The other provisions of the Act are of doubtful value. The property offered in security must be appraised by two freeholders residing in its locality appointed by the directors, and the appraisal must be certified by the assessor of incomes as not being over the true market value. The expenses of the assessor are paid by the borrower. Now as no private money lender, bank or ordinary company would take a security without making an investigation in person or by inspectors paid by itself and over whom it had absolute control, this provision standing alone has a bad effect, because it might tempt the committee on loans into taking a security recommended as a perfunctory act by persons in no wise connected with the company or interested in its success. Again, the notes and mortgages used as security for bonds must be placed in trust with the state treasurer. This slight precaution against possible dishonesty of the company's officials or clerks adds nothing to the soundness of mortgages already duly filed and recorded. It would have been a great deal better if private persons had been designated as the trustees, thus guarding the public from being misled into believing that the state was back of the bonds.

The wisdom of allowing little bond and mortgage companies to parade in the garb of officiality may be seriously questioned, especially when, as in the case of the Wisconsin so-called associations, they intend to grant long-term loans without adequate assurances in law for their endurance or the integrity of their capital stock and reserves. No regulation exists in Wisconsin for the fluid investment of the reserves. In Europe all companies have substantial capital stock and all associations are composed of members whose combined properties aggregate many hundreds of thousands of dollars. The auditors in Wisconsin are appointed by the shareholders. In the best European systems the auditors are public officials or else are so appointed that as a matter of course they favor the bondholders and borrowers as against the shareholders and the company.

Fortunately for Wisconsin, however, the Act contains a few sentences, inadvertently inserted, which makes it practically inoperative. No loan may be granted except with an annual amortization of at least one per cent of the principal, that is, assuming that applicants for loans would insist upon the average rate in Wisconsin of five per cent compounded on their instalment payments, a loan which must run for no shorter period than 36 years. A company, particularly a small one, dealing exclusively in that kind of business cannot give that rate to borrowers for their instalment payments and at the same time distribute satisfactory dividends and set aside out of its profits each year an amount equal to two per cent of its capital stock as required by the Act. If it cannot distribute satisfactory dividends it cannot sell its shares, while if it does not accumulate a reserve the public will become distrustful of its bonds. Again, the Act abolishes the usury laws for the so-called associations by allowing them absolute discretion in imposing fines on borrowers for defaults. Borrowers will never place themselves at the mercy of such an association if they can find a lender elsewhere. Equally unfavorable to the borrower is another provision which prevents his selling his property when once he has mortgaged it to the association unless he can find a

purchaser who will assume personal responsibility for his debt. As a rule in the United States a purchaser acquires only the equity of a mortgaged property and incurs thereby no personal liability for the debt of the mortgagor, and this custom would be hard to change.

In 1914 the laws of New York on savings and loan associations were amended to enable the associations in operation to establish the Land Bank of the State of New York, with headquarters in New York City. Savings and loan associations have a variable capital consisting of dues and dividends credited to members, either individually or in series, and divided into shares of \$100 to \$200. They may be formed for encouraging thrift and home-building, accumulating savings and lending such accumulations to members.

Instalment shares, savings shares, accumulative prepaid shares, income shares, and juvenile-savings shares, or any of these kinds, may be issued at any time by an association called permanent. A serial association must issue its instalment shares in series and credit by series the dividends apportioned to such shares, and no additional shares may be issued in any series after a dividend has been once credited thereto, unless the subscriber pays the book value of such shares, together with all dues owing and accrued interest, so as to place the original subscribers and himself on a par. The method and length of time for maturing the shares of all kinds are determined by the by-laws. An entrance, membership or transfer fee may be charged, but in no case may it exceed one dollar per member or share. The fines which may be imposed for neglect or refusal to pay dues, interest, or premiums may not exceed two per cent a month. A member who is not a borrower may withdraw all accumulations on his shares after sixty days' notice. No penalties may be imposed for withdrawing. If receipts are not sufficient to meet maturities and withdrawals, the board of directors or the Superintendent of Banks may direct all claims to be paid upon a ratable and proportionate basis. Thus the associations operate with funds all coming from members and subject to comparatively short call. A member must subscribe for at

least one share; he may hold more and vote them all if the by-laws permit. Each association is managed by directors elected by members. A guaranty fund must be created ultimately to equal five per cent of its accumulated capital and at least 50 per cent of the value of any real estate it holds.

Credit may be accorded only to members. A loan may be granted on one or more than one of the various kinds of shares if its amount does not exceed their withdrawal value. As a rule, however, loans are made upon mortgage security, the borrower at the same time pledging to the association instalment shares having a matured value at least equal to the amount of his loan. The dues on these shares, payable at regular intervals specified in the by-laws, and the dividends thereon are applied in reduction of his indebtedness.

The property offered as security must be situated within fifty miles of the headquarters of the association. No loan may exceed 75 per cent of the appraised value. An association may lend up to the maximum on improved properties. Land is considered improved if the improvements equal the land alone in value. It may lend up to 60 per cent of the value of unimproved properties. Land is considered unimproved if the value of the improvements does not equal that of the land. It may lend up to only 50 per cent of the value of vacant properties. Land is considered vacant if there is no building upon it suitable for residence, business, manufacturing or agricultural purposes. In such case the money borrowed may be used only for erecting such a building and is to be advanced as the work progresses. The total loans on vacant lands must not exceed 15 per cent of the accumulated capital of the association.

The yearly payments of dues and interest required on a loan in excess of 70 per cent of the appraised value must not be less than 12 per cent of the principal. At 6 per cent this would mean 139 monthly instalments, if the interest be charged on the balance, or 144 instalments, if interest be charged on the face of the loan; or an extreme period of 12 years. The yearly payments of dues and interest must be not less than 9 per cent of the principal, if the amount loaned

is in excess of 60 per cent, and not over 70 per cent of the appraised value. This gives an extreme period of about 18 years. No minimum is prescribed for the yearly payments on loans whose amounts are below 60 per cent of the appraised value of the mortgaged property: consequently the annual payments and length of time of the loan may be left to contract between the association and the borrowers. The total expenses of an association must not exceed 2 5 per cent of the annual dues actually received from members.

The money available for loans may be auctioned to the highest bidder upon premium plans specified in the law, which thus permits an association to charge interest higher than the legal rate. If an association has more money than it needs for loans, it may compel members to accept the withdrawal value of their shares, or it may invest the surplus in loans to other savings and loan associations, in securities authorized as investments for savings banks, or in first mortgages on real estate in New Jersey. The last provision was inserted through the influence of New Jersey suburbanites who work in New York City.

These, in brief, were the statutory powers and methods of New York savings and loan associations up to the year 1914. There are in operation (1914) 241 associations with 161,880 members and \$64,249,990 of resources. With three or four exceptions they are as sound as any institutions, large or small, in the state. They are the survivors of many associations which were formed under bad laws subsequently repealed, and managed on wrong principles at last abolished. Chief among the objectionable features of the old laws was the provision giving an association a free hand to operate throughout the state. The surviving associations are local; moreover, they are urban, their members living or working in the towns and cities and their assets being invested in mortgages on urban properties and in liquid securities. The great majority of members are not borrowers, and the non-borrowers in ordinary times by their savings supply the associations with all the money needed for borrowing members. For emergencies the associations themselves may borrow for

terms of one year or less, provided they do not allow their liabilities to outsiders to exceed one-fifth of their accumulated capital. This would seem to be the widest limit compatible with safety. It has proved, however, entirely safe; the associations have kept well within it, borrowing only to relieve stringencies, easily paying off their debts as they fall due, uniformly distributing much larger dividends than the savings banks, and charging interest on loans at a lower rate than the average lender. Year by year the associations increased steadily in number and wealth. The law under which they operated, particularly with this wise restriction against incurring heavy outside liabilities, was considered one of the best of its kind, and there was no necessity or even an intimation of a demand for its change among the mass of members.

The amendment of 1914, creating the Land Bank, has wrought vital changes in the New York law. It provides that the Land Bank may be organized by ten or more associations with aggregate resources of not less than \$5,000,000, and may be opened for business when \$100,000 of capital has been subscribed. The first ten associations which get together may enact the by-laws of the Bank, to be submitted to the State Superintendent of Banks, which must prescribe the manner of calling meetings, the number to constitute a quorum, the duties of the officers, and the manner of their election, and their terms of office. The by-laws when once adopted can be changed only by resolution of the directors approved by the Superintendent of Banks. Shareholders have absolutely no initiative in this matter or right of participation in the management, while it is possible under the law for the original incorporators so to word the by-laws as to make the first directors self-perpetuating for many years. This could be done also by any subsequent board of directors. Hence the Land Bank of New York is not cooperative in organization or administration, although its membership is eclectic and only savings and loan associations may be shareholders. It is a domestic moneyed corporation with a variable capital stock; when once it is organized under the law,

no other land bank may be organized, so it has an exclusive monopoly of its field. Nor is it cooperative in objects since it has power to do a general loan business in first mortgages on real estate in New York and New Jersey and to receive money and property from shareholders and all other persons with whom it has contracts, engagements or undertakings. Its loans to non-members may equal in amount 60 per cent of the appraised value of the mortgaged properties. Loans to shareholders may equal 75 per cent of the appraised value.

The Land Bank of New York may issue bonds but only upon notes secured by first mortgages made to or held by shareholders and placed in trust with the State Comptroller. The face value of the bonds must not exceed 80 per cent of the value of the underlying mortgages and the total in circulation, including other indebtedness, must not exceed 20 times the amount of the capital of the Bank, presumably the paid-in capital, although the law is not clear on this point. The bonds are exempt from taxation, as is the Bank itself to the same extent as a savings bank. A portion of the profits equal to one-half of one per cent of the capital must be set aside each year for creating a guaranty fund ultimately equal to 15 per cent of the capital, but inasmuch as the directors may invest this fund in mortgages there is no superiority in it over the capital as obligatory security for bondholders.

The amendment of the law to enable the Land Bank of New York to sell its shares to savings and loan associations, and to acquire the mortgages securing the savings of the members of such associations for use as security for its own bonds issued for sale to the public, does not affect the manner of making loans except in one minor particular, but it makes important changes in the regulations relating to the investment of the savings of their individual members. Formerly the law permitted loans to members only and on securities, apart from mortgages, authorized for savings banks. Now, however, a savings and loan association may invest 10 per cent of the members' savings and its other resources in shares of the Land Bank, besides buying bonds of this institution with any funds not needed for loans to members. In

addition, an association, if it has no debts or second mortgages, may pledge or assign 75 per cent of its mortgages and securities either for cash or bonds of the Land Bank, or its entire assets if members will assume joint and general unlimited liability on the bonds. But the total liability to the Land Bank must not exceed 20 times ten per cent of the accumulated capital of the association.

Now since these mortgages, which represent the savings of members, are at present the soundest kind of investment and at the same time bear a higher interest than the bonds of the Land Bank are likely to bear and are as profitable as any safe investments which can be made out of the associations' funds, what object has the amendment of the law in authorizing such exchange or conversion? If an association has more savings than it can invest in loans to members, it is justified in seeking a safe investment for the surplus, but it cannot find a safer investment than the securities authorized for savings banks. This is the logical implication of the clause in the law which requires the Land Bank itself to use those securities in like case. If an association needs cash in a stringency to meet liabilities to members, it would be good business, of course, temporarily to hypothecate a portion of its assets to raise the necessary funds for that purpose; but since an association must buy one dollar of shares for every 20 dollars of bonds issued by the Land Bank in its behalf, and since each share is \$1,000 and only ten per cent of the resources of the association may be invested in shares, an association in a stringency would be likely to find the services of the Land Bank of less practical value than those of an ordinary lender.

Another purpose for which an association might possibly resort to the Land Bank of New York is for raising money with which to make new loans. But in this case it would place the funds of the Land Bank in competition with the savings of its own members and reduce their dividends. A loan, it will be remembered, must be secured, in addition to a mortgage, by instalment shares subscribed by the borrower and having a matured value at least equal to the

amount of his loan, and these shares may participate fully in all dividends while shares of other kinds have only a restricted participation. Hence the tendency would be for investing and saving members to drop out and borrowing members to come in. This tendency undoubtedly would become pronounced in an association which should go the legal limit, put ten per cent of its resources in shares of the Land Bank, pledge or assign to the Bank 75 per cent or more of its holdings of mortgages and securities, and guarantee bonds received therefor up to 20 times what it had invested in shares. What opportunity for the profitable investment of the savings of members would be left to an association which operated to this extent on funds of the Land Bank? With the incentive to thrift thus weakened and only borrowing members remaining, the association would lose its cooperative character unless the borrowers should assume joint and several liability for one another's loans.

The case is put in this extreme way merely to elucidate the principles involved, without any intention to imply that there may be positive dangers in the law. Nevertheless it must be borne in mind that the New York savings and loan associations are now automatically safe and sound, while, if they should enter into relations with the Land Bank, their future would become involved with that of an institution whose success depends upon honest, conservative and efficient management. Efficient management of such an ambitious financial corporation can be obtained only by the payment of liberal salaries and other large outlays. The law recognizes this fact by providing that the Land Bank may charge borrowers a commission of one-half of one per cent and redeem its bonds at 102.5 per cent. These expenses and commissions must be paid by the savings and loan associations, and it is difficult to see how the reduction in interest which might occur after a number of years would compensate the associations for the risk and trouble assumed. If the Land Bank were cooperative and there were a need or desire for centralization, then of course there would be nothing which the associations should not do to create a system.

The Land Bank of New York, however, is unlike any superstructure erected upon any European cooperative system. The Central Landschaft of Prussia, on which some advocates claim that it is modeled, is a non-profit making, non-dividend paying association without share capital, managed by officers who receive no salaries. The Central Landschaft makes no loans, handles no funds except a small reserve, and sells no bonds or debentures, but simply issues debentures which are given to adhering landschafts who in turn give them in place of their own debentures to those of their members who prefer them in exchange for their notes and mortgages.

Inasmuch as the amendment of the New York law on savings and loan associations was not prompted by any pressing necessity, the purpose of it must be found in the argument advanced to induce legislators to make the change. This purpose was the grant of loans to farmers. But no law prevented farmers from belonging to the savings and loan associations; moreover, they were cognizant of this oldest and most powerful form of cooperation, and it is fair to assume that efforts to apply it to rural uses would have been made long ago if it had been practical. The absence of a rural element in the membership of the associations of New York and other states must be attributed to a cause inherent in the organization and conditions of the associations, namely, that members of a savings and loan association must be able to make regular payments at short intervals, whether it be on shares or on loans. The persons best able to do this are those who are accustomed to receive wages and salaries and to pay rent for periods of one month or less, and it is among this class that all the associations recruit their members.

The great majority of this class have no business of their own in which to use their earnings and so become investors. A minority wish to acquire homes and are willing to apply sums equal to their rent and whatever more they can save to this purpose. The question arises how an association can extend real-estate credit to these home-builders, since its funds, coming from shares, are practically time deposits and

subject to 60 days' call? The explanation is that withdrawals are discouraged by forfeiture of entrance and transfer fees, the shares of borrowers are pledged to the association, and the business generally is so arranged that the monthly payments of borrowers suffice to meet dividends, the normal amount of withdrawals and the matured value of shares. But the chief reason, far above all others, is that the association is cooperative, members lend their own money among themselves and with a true cooperative spirit accord easy terms because of that spirit and of the mutual confidence and trust which prevail in the association. In this way an association, beginning with an issue of 50 shares with monthly dues of \$10, will soon have \$1,000 which it can lend safely until the end of the series, and so on. If the issue of new shares is sufficient to give it a steady and dependable inflow of capital, it will be able to lengthen the period of the loans. Loans of ten years are frequently granted, but they are always repayable on the monthly instalment plan. An association obtaining its funds from withdrawable shares cannot, of course, invest all its assets in long-term loans; there is a limit both to amount and to time which it would be dangerous to overstep. The Ohio savings and loan associations have invested \$11,147,733 in farm mortgages. This is less than one-seventh of their total assets, and it has proved entirely safe, although some of the mortgages run for 16 years. Nevertheless it would be advisable to exercise caution in extending this practice. Long-term loans prevent quick turnovers of capital, and thus are not as profitable as short-term loans and tend to reduce the size of dividends. The Ohio associations dealing with farmers have been compelled to change their highly profitable instalment regulations and allow semi-annual payments and even payments in lump at the end of the term.

There is no reason why savings and loan associations in other states should not follow the methods adopted in Ohio, admit some farmers to membership, and grant long-term loans to a limited extent. This would not only open up a new source of loans for agriculture but also would strengthen

the associations by increasing their assets. It is doubtful, however, whether any large degree of success will attend the efforts being made to form associations composed exclusively of farmers. In agricultural regions there are not many salaried or wage-earning persons. Contrary to the case in the cities, the rural residents are more willing and able to borrow than to set aside savings at interest or for dividends. Farmers, even tenants, are in business on their own account, and if they are industrious and intelligent, have immediate use of their own for all their money and are not able to make payments at short regular intervals. Consequently the conditions essential to the success of a building and loan association do not exist in the country. Farmers cannot afford to tie up their money for a long term in the mortgages of neighbors. The prime object of the reorganization of rural finance in the United States is to create a system whereby the farmers may utilize their savings as circulatory and working capital and obtain from the general public all the other funds needed for the equipment, improvement and acquisition of land. If farmers and their neighbors were to invest their disposable funds in real-estate mortgages, they would be subject to the necessity of borrowing all the more heavily for raising and marketing their crops and live stock.

Building and loan associations deal in cooperative credit only in a restricted sense, since they do not require members to obligate themselves in any way for borrowers. They are formed for collective saving—quite a different thing from cooperative credit—and for investing the accumulated savings by preference in mortgages of home-builders. Such an association does not borrow nor does it pledge the collective liability of members for the latter purpose, which is essentially secondary to its savings feature. The only state contemplating the possibility is New York, which by its law as amended in 1914 allows members to impose unlimited liability on their association in favor of the Land Bank in consideration of money or bonds received. It is not probable that the investing and saving members of the New York associations will avail themselves of this right to subject any considerable portion of the

\$65,000,000 of assets securing their savings to an unlimited liability for raising money with which to grant new loans to persons who may not yet be members. Associated persons are careful when they have only their own savings to invest and are inclined to become careless when they invest money coming from the outside. Facile credit is thus coöperation's greatest danger, because it creates corresponding liabilities which must be met eventually, no matter how accommodating the creditor may be or how remote the day. The soundness and prosperity of the building and loan associations in the United States are due to the fact that expenditures are restricted statutorily to a small percentage of receipts, and officers are forbidden under penalty from involving an association in any outside liabilities except a temporary one of a limited amount to relieve stringencies. The New York laws contained the same wise regulations until the amendment authorized the directors to convert into cash the mortgages taken to secure savings of members and to guarantee bonds of the Land Bank.

The only cooperative association in which collective liability is practicable for long-term real-estate credit is an association composed entirely of borrowers. Such is the *landschaft*, a distinctively rural association, and in every country in which the *landschaft* has been introduced it has proved its superiority for getting long-time loans for farmers at low interest rates and on easy terms. Since the debentures of a *landschaft* are unrecalable, the holders can never touch the principal until the *landschaft* itself declares it to be due. Until then the *landschaft* is obligated to repay only the semi-annual interest on the debentures; consequently the issue of debentures does not involve the *landschaft* in an outside liability, as is provided now by the New York law for savings and loan associations. It would seem better to establish tried institutions of this sort in the United States than to change the building and loan associations, distinctively urban institutions, which, as they are now statutorily governed and conservatively managed in the cities and towns throughout the country, afford the best examples of coöperative finance in the

world. Moreover, it would be better to establish *landschafts* than one large central land-credit bank or a plurality of such banks. No private joint-stock banks in Europe have been able to grant much long-time credit to farmers. Many of them grant three- and five-year mortgages and a few grant instalment mortgages of ten years, but they do not serve farmers to as great an extent as trust companies, mortgage-bond companies and savings and state banks in the United States. The laws of the states, however, should be so amended as to restrict bond issues and assure close official supervision for the purpose of giving more protection to the investing public. A study of the origin and purpose of the creation of the public or semi-public land-credit institutions, central or local, which exist in a few European countries, shows that there are no exigencies calling for the establishment of such institutions in the United States.

The *landschafts* may be either private or semi-public. The latter are those in which officials appointed or approved by the state are placed in the administration to serve as impartial intermediaries between borrowers and bondholders. In no case is a *landschaft* aided or guaranteed by the state, nor does it require a monopoly, although it is well to give it a restricted and exclusive territory. It usually is privileged, however, to the extent of having special summary processes against delinquents. Only persons desiring to obtain credit on unencumbered farm lands may become members of a *landschaft*. Its object is to execute debentures on the collective liability of its members to be issued to them or in their behalf in exchange for their notes and mortgages. A *landschaft*, therefore, has no need of a capital stock, savings or deposits, nor does it have to borrow. It is thus the safest kind of financial institution which can be imagined, because it handles no funds except those immediately placed in the best kind of mortgages. The annuities collected from borrowers are used every six months for paying interest on debentures and expenses and maintaining a reserve, and for redeeming debentures or making new loans.

The debentures of a *landschaft*, based as they are upon

the land and the collective liability of the borrowing farmers, are almost as safe and sound as the land scrip which the United States Government formerly issued. Debentures would soon become popular in the United States if the instruments and the landschaft had the same tax exemptions as a savings bank or a building and loan association; in that case, naturally, they could be issued and sold at a low interest rate and without fixed date for their maturity. This would bring cheap money to farmers and in addition permit the landschaft to grant reducible loans repayable by annuities running for 30, 40, 50 or 75 years or a period desired by the borrower.

It has been asserted that American farmers do not want long-time credit. The truth of this assertion can be ascertained only after the facilities have been provided. Long-term loans would enable tenants to become landowners by paying their debts out of the annual produce of the soil. The evils of tenancy have already made their appearance to an alarming extent in the United States. Long-term loans would enable farmers with love of home and pride of family to acquire broad acres and build substantial residences at an expense to be borne in part by their sons. The most patriotic citizens in all countries are freeholders with firesides near to ancestral graves. Long-term loans would enable the farmers to convert into annuity contracts the \$2,000,000,000 of three- and five-year mortgages which now encumber their lands, and thus save themselves from the costs of repeated renewals and the dangers of foreclosure. If this stupendous amount, composed in part of debts running back for many years, were spread out over the future, the farmers would be able to employ more of their income to the present needs of agriculture.

PART II. COÖPERATIVE CREDIT

CHAPTER XX

COOPERATION AND COOPERATIVE CREDIT

Definition—Administration—Objects.—Cooperative Society versus Partnership and Corporation.—History of Corporations.—Rise of Modern Cooperation.—English Trade Unions—Beginnings in Germany and France.—Work of Schulze-Delitzsch for Tradespeople and Workingmen—Raiffeisen's Activities for Agriculturists—Luigi Luzzatti—Advantage of Coöperation for Farmers.—Two Arrangements in Europe

COOPERATION is the act of persons, voluntarily united, of utilizing reciprocally their own forces, resources or both under their mutual management to their common profit or loss. The partnership, corporation or association may be used as the form of organization for carrying on the business for which they thus unite, but the latter form undoubtedly is the best to adopt.

The administration of the associational form of organization differs in details among different societies but never as regards its important features. In all countries it comprises a committee of control and a committee of management, both elected by members, and supervising officials elected in the same way or appointed by outside authority; and these bodies are separate and independent the one from the other and are required to keep records and render reports of their operations so that their honesty and efficiency may be assured by wise counterchecks and the light of publicity upon all their acts. The power of the members is supreme but it may be exercised only at meetings regularly assembled, at which a majority prevails. A capital stock is not essential, but if it exists it consists of subscriptions of persons enrolled as members, belongs to them individually and not to the association,

and is subject to increase or diminishment by the admission and retirement of members and by the payments and withdrawals of payments on their subscriptions: hence the amount of the stock and the number of members are not fixed but constantly fluctuate above a certain prescribed minimum

The subscriptions are simple membership agreements conferring certain rights always revocable by the association and imposing certain obligations, among which may be that of paying specified sums usually in periodical instalments. They are not in any sense shares of stock, and while they may determine the extent of the members' liabilities toward the association and its creditors, they do not indicate their voting strength. No matter how large the sum or sums for which a member may have subscribed, the number of his votes is so limited as to prevent the control, management or supervision of the association from being dominated by the mere power of money. A coöperative society is an association of individuals as distinguished from a combination of capital, and the rights of members therein cannot be transferred nor entrusted to proxies except by the society's grace, and then only to other members; consequently, a member cannot hide his identity or escape responsibility with the ease possible to a shareholder in a corporation. A cooperative is legally and morally bound by the acts of his society, while the liability for its financial obligations which he assumes collectively with his fellow members may involve severally as well as jointly without limit his entire individual assets and credit.

A coöperative society may and in some circumstances must of necessity deal with outsiders, but its benefits and advantages are all confined to members. In this respect it differs from a partnership or a corporation the associates in which are beneficiaries of its economic action only as they are a part of its general clientage. Again, a partnership is composed of a few designated persons who individually own its assets much in the same way that coöperatives own those of their society, but in each of whom its entire power and liability are lodged as regards third parties. A corporation has assets and franchises owned and managed by the body itself

as a legal entity apart from its shareholders. While these shareholders, like members of a coöperative society, may vote for officials, they vote by shares and not as individual persons, and have no title in the properties of the corporation, and are not responsible for any of its acts. Thus in spirit, organization and administration there are vital points of difference between corporations, partnerships and coöperative societies.

As regards objects, however, they are all alike. They may engage in the same kinds of business, and when so engaged they aim to make profits, effect economies, and further the interests of the associates. The devotion of the coöperative society to the interest of its associates, however, is the most pronounced, since it imposes qualifications for participating membership, grants this only when it may be of advantage to itself and persons admitted, excludes the public wherever it is possible to do so, and conducts its operations as on a common account for the mutual benefit of members alone. There is nothing intrinsically altruistic or benevolent in cooperation. The notion that it is based on charity to be mutually bestowed and shared or to be spoon-fed by the government or philanthropists to feeble folk is a mistake of wide exposition. Coöperatives cannot give or receive alms without weakening their fiber. They may or may not be inspired by brotherly love, but the cement which holds them together is the desire or need to gain or save. Cooperation is strictly business-like in its purposes and methods, and it has achieved its greatest and most enduring successes among persons capable of relying upon themselves and strong enough to refuse tenders of outside aid.

With the exception of bodies endowed by the government with special and sometimes monopolistic privileges, the coöperative society, partnership and corporation are the only forms of organization for business, if corporations public and private, with or without stock, be considered as one class. Of these three forms the coöperative society has proved to be the best for consumers, for groups of small mercantile and industrial producers, and for all farmers rich or poor. The

extensive powers lodged in the associates of a partnership make this form of organization not only impracticable but dangerous for the large number of persons who usually constitute a cooperative society. A corporation may have a numerous membership, but it is difficult to maintain the spirit of mutuality within it, while, since its very organic existence depends upon the possession of wealth, it is necessarily capitalistic and its tendency is to subordinate all other objects to the increase of its assets, and this is so whether its administration be cooperative or otherwise. Moreover, a corporation cannot combine workers or consumers without funds in hand for united action in behalf of themselves as readily as an association can fulfill this object for respective members, because their future gains and savings are an unknown quantity and a value which cannot be computed in advance and used as a basis for a fixed capital.

A cooperative society is free from these objections. Its capital stock, if it has one, not being fixed like that of a corporation, by its variability allows members to pay up their shares as they earn or save the money and to withdraw the money as they have other uses for it. This fluctuation can cause no trouble under normal conditions, because the only need which a cooperative society has for money is for carrying on the business of members, and the capital requirements of this business grow correspondingly less as its proportions become smaller with the retirement of members. So the cooperative society is preeminently adapted for the classes mentioned when they wish to utilize their own funds and resources for their own purposes but for farmers—it will be seen later on—cooperation cannot develop its full usefulness without combination; there must be cooperation among the cooperative societies as well as among their individual members so as to create a system, and at the base of this system should be the credit society.

The cooperative association is the oldest form of organization for economic action. It has been so long in general use that all European races have records showing that it preceded their political organization. The earliest type was the group

of kinsfolk or neighbors loosely bound together for their common good or for helping one another in some enterprise too big to be undertaken by individuals alone. The corporation, the other form of combination which permits of a union of numbers, is of recent origin when compared with the cooperative society. It became possible only after circulating wealth had accumulated and there were persons with surpluses larger than their actual needs which they were willing to entrust in ventures beyond their immediate control, and after there had arisen a numerous class of consumers existing apart from the producers and able to buy what the latter could supply.

The corporation, however, was the first to receive legal recognition. At first corporations were not governed by general laws but each was created by a special act, and they were generally composed of persons of great influence with the government, invested by royal decree with a monopoly or privileges of an exclusive character obtained and used by the grantees for some large project or grand enterprise. The nobility were invariably represented among these grantees, for in those days the nobility were all-powerful in the state and owned most of the large fortunes by reason of their extensive landed estates, and from them alone could the desired franchises and the needed capital be procured.

Thus the corporation started with aristocratic influence and was generally intimately identified with the government, since its noble shareholders had votes in the parliament or the cabinet of the King. The Hudson's Bay Company which was incorporated with Prince Rupert as the head and granted vast stretches of territory and a trading monopoly in Canada, the grant of Pennsylvania to William Penn, John Law's Company of the West which acquired Louisiana, and the enormous companies which were granted trading monopolies by France and England over the South Seas and the East Indies are typical examples of the mode in which big business was launched in those days by corporations and royal favors. And when trade and commerce assumed tremendous proportions in consequence of the development of modern

transportation facilities which opened up new worlds for exploitation, and when industrial and mercantile pursuits took on their present importance and infinite variety as a result of the discoveries and inventions of science, the corporation, which yet remains the only private means for amassing capital, became the dominating factor in business life. The laws which were enacted to give corporations a statutory form were drafted also to encourage their growth, for the European nations were struggling for supremacy and each realized the very plain truth that no undertaking requiring large funds to be used in distant lands or employed for indefinite periods can be attempted except through the corporate form of organization, with a capital stock divided into shares of a size suitable to the average run of investors and involving no personal responsibility for the management or liability for its debts.

The corporations thrived and multiplied under this favoring action of the governments. They found strong advocates in the first school of political economists, whose studies related mainly to the accumulation of wealth, and their powers were enlarged by lawyers and judges. The eloquence of Daniel Webster in the Dartmouth College case, for example, induced the Supreme Court of the United States to decide that the grant of a franchise by the state to a corporation was as inviolable as a contract between private individuals; in other words, that while a nation may annul a treaty with another nation, it cannot divest a citizen of privileges once bestowed. With the rise and expansion of incorporated business, household industries and handicrafts disappeared and other momentous changes began to manifest themselves in Europe. The landed estates the titles to which had descended from the feudal system were being broken up; personal property was becoming as important as real estate and was yielding larger fortunes; the nobles were giving way to the aristocracy of wealth, and the barons of commerce and industry were taking their place as the masters of the liberated serfs who were swarming in the cities. Social and economic conditions were undergoing an entire readjustment, and incor-

porated business was most powerful and active wherever the rich were getting richer and the poor were getting poorer.

But reaction set in almost as soon as trouble manifested itself, and this politically intrenched system, which considered only the accumulation of wealth and paid slight attention to the cruel inequalities of its distribution, soon became a violently agitated subject of reform. A new school of political economists arose to advance the rights of man against the rights of property, and various theories were broached or put to practice with the object of rescuing the poor from an industrial slavery which threatened to be more oppressive than that suffered under feudalism. Visionaries planned Utopias elaborated on the form of the association of old pastoral days, and their dreams materialized in communistic settlements into which workmen might retire and sever all connection with the outside world. Some of the communities located in the wilds of America still exist. The more practical men sought to reform society from within, to break up the intimate relation between the government and vested private interests, to abolish monopoly and special privilege, and then to assure justice and equality either by giving freedom of action under the law to all or by placing all business in the hands of the government. Their ideas as to these alterations were confused with a perplexing similarity at the start, but eventually the line between them became clearly drawn and socialism sprang up on one side and modern coöperation on the other.

A bitter antagonism arose between the protagonists of these two theories when an active propaganda was launched for their ideas about the middle of the last century. Today, however, there are socialists who believe in cooperation and cooperatives who believe in socialism. The reason for this is that, industrially considered, both have an aim in common, which is to give to the producer an equitable portion of the wealth he creates. But socialism when it adopts cooperation adopts it as one of many means to its end, while a cooperative who is a socialist is such just as he may be, a German or an American, a Christian or a Jew. Barring this identity in

respect to aim, the two forces are irreconcilably different the one from the other. Socialism is political and often militant. It stands for government ownership of all sources and distributing agencies of wealth and even, in its most radical form, for the abolition of private title to property, and it strives to coerce everyone into joining its ranks whether he would or no. But coöperation has no politics, at least outside of the trade unions. It rests upon self-help, opposes state intervention, and demands simple equality and freedom of action under the law. It wants the adherence of no one but him who is willing to join, and it insists inexorably upon the individual ownership of property and the right of all to hold absolutely as their own whatever they can honestly earn and acquire. Hence, the harmony maintained at present must dissolve in antagonism again when the campaign recently inaugurated for coöperation reaches a more advanced stage and its principles become better understood.

The advent of modern coöperation was with the English trade unions, which were formed in the early part of the nineteenth century for increasing wages and supporting members during strikes and lockouts. These trade unions, however, were mutual benevolent organizations which strove to attain their objects through the exercise of political power. They were followed by a number of associations with a purely economic purpose created within the next decade under the leadership of Robert Owen, the rich reformer who mixed cooperation with free love and other radical ideas. The first appearance of coöperative credit in the United States was the foundation of the Oxford Provident Building Association at Frankford, a suburb of Philadelphia, on July 3, 1831. The first agricultural cooperative society in England was that formed at Assington, in 1838, by 15 farmers who put up \$15 apiece, borrowed \$2,000 more on their collective liability from a man named Gordon, rented 75 acres of his estate, allotted this land among themselves, and cultivated it without hiring labor or paying salaries. In 1844 was founded the Equitable Pioneers of Rochedale, with a capital of \$140 contributed by 28 flannel weavers, mechanics and shoemakers

for buying supplies to sell at wholesale prices to members. At the time this society was being formed, Victor A. Huber was propagating the idea of association for workmen and tradespeople in Germany, but long before he grasped the standard, tentative efforts toward coöperation had been made among various classes in Germany and other countries on the Continent.

In 1800 German tradespeople essayed the cooperative purchase of raw material, and the establishment of coöperative dyeing-houses and sale centers. In 1821 farmers in the Rhine province collectively bought and operated a windmill for grinding grain, and there seem to have been during that period numerous mill associations on the Hunsruck, besides communal bakeries in several districts along the Rhine. In the sixteenth century there were drainage unions in Holland and during the Middle Ages similar unions of the peasants in Italy and Spain, while in France there were peasants' associations for productive purposes in the thirteenth and twelfth centuries. These instances are only a few of the many which might be cited. Indeed, almost as far back as history can be traced, associated action appears to have been a common occurrence among farmers, tradespeople and small producers in all European nations, and in Russia, China and Japan; for in the days when circulating money was scarce and the mechanism of exchange had not yet been perfected, bartered commodities frequently were gathered and disposed of collectively in traffic, labor was exchanged for labor, and all this sometimes led to coöperation in some form or other.

Thus, unlike the corporation system, the cooperative association arose amid humble surroundings away from the fostering care of government and unaided by special privilege or even by recognition in law. Its first essays were feeble and sporadic. Nevertheless it had already made substantial progress when students, philanthropists and statesmen at last realized that it could be developed into a great social and economic force for protecting farmers and the plain people not only against the oppressive aggression of capitalism but also from the dangers of radical socialism. The movement in

this direction on the European continent began in Germany about the middle of the last century. At that time the German Confederation was undergoing the disturbances attendant on the change from the old to the new order of things. The cities were crowded with workmen out of employment or forced to accept whatever pittance was tendered them as a daily wage. The small trading classes were succumbing in the unequal struggle with organized capital and large-scale industry. The peasants, freedmen or serfs in many districts were too ignorant and poverty-stricken to do good farming, while profits in agriculture had sunk nearly to the vanishing point because of the development of ocean steamship navigation which began regular service in 1838 and was now seriously affecting the prices of grain and meat in the principal markets by importations from the United States.

In the midst of these troublous times the poor were reduced to want and misery by a drought which lasted from 1846 to 1848. The rich distributed free bread, flour, potatoes, seed and breeding cattle to relieve suffering in places where it was most intense, or opened public bakeries, stores and loan offices for selling these supplies to the needy cheaply and on easy terms.

Two men, Herman Schulze-Delitzsch and Frederick William Henry Raiffeisen, both of whom subsequently attained undying fame, were foremost among the organizers of this relief work in Germany. Schulze-Delitzsch was quick to comprehend the limitations to the usefulness of charity, and within a couple of years he inaugurated the movement which he promoted to the end of his life for inducing tradespeople and workmen to form associations for mutual self-help. He was familiar with the history of cooperation, his investigations of this subject having been inspired by the teachings of Huber, and before formulating his plans he made a close study of existing associations, especially of those of industrial workers for buying raw materials in France and the Rochdale and other laborers' wholesale societies in England. Whether he knew of the Frankford building and loan association cannot be said certainly, but he probably did know of it, because he

was a follower of Henry Charles Carey, the American economist, who lived in Philadelphia, had read all his works, and most likely had corresponded with him.

The conclusion reached by Schulze-Delitzsch from his investigations and studies was that the first need of cooperatives was money and that consequently the basic unit of their organization should be a credit society financed by their own thrift or savings and by funds borrowed on their collective liability. He believed that after they had familiarized themselves with simple banking methods and the uses of credit and gained a standing in financial circles, they would be in a position to apply cooperation to all other kinds of business. Schulze, however, did not start the first society organized along these lines. That honor belongs to Dr. Bernhardt and a tailor named Buerman, who reduced the theory to practice at Eilenburg, Germany, on October 1, 1850, while Schulze-Delitzsch was still working on the details. Schulze-Delitzsch did not make a practical application of his principles until the summer of 1852, when he reorganized an association which he had founded in 1850 at Delitzsch to conform with that in Eilenburg. But this does not bedim the glory which is his of having evolved in logical order the theory of this new credit created out of the capitalized character of groups of honest and industrious persons, which has proved to be as sound a security as can be obtained regardless of how weak the individual units may be. Schulze-Delitzsch's literary and oratorical talents, which enabled him to expound the theory in a clear and forceful manner, and his enthusiasm and effective activities for the cause soon made him the recognized leader in the movement and brought him followers from all sides. As time went on his ideas expanded and developed a new science of economics which brought him into an open conflict on the one side with the autocratic Bismarck and on the other with the brilliant socialist Ferdinand Lassalle; for to Schulze-Delitzsch mutual self-help meant coöperation based on individualism and the inviolability of the right to private property without assistance or interference by the government. He denounced state aid as vehemently as he inveighed against

charity, and also, while he maintained that coöperatives should consider themselves as parts of the whole for their common good, he urged that each should preserve his integral identity and utilize the advantages of association first for his own benefit and then for that of his fellow members. The success of cooperation as propounded by Schulze-Delitzsch is due to the fact that it does not violate human instincts nor raise to a morbid degree of sentimentality the quality of brotherly love.

The organization and business methods of Schulze-Delitzsch's credit and savings societies, or rather people's banks, are better adapted to mercantile and industrial classes with small stores or establishments of their own than to workmen or farmers. Indeed, he confined his activities largely to tradespeople in urban centers and encouraged workmen to join as members only when they wished to save or obtain loans to become producers on their own account. Schulze-Delitzsch never gave any particular attention to the agricultural classes. The betterment of the farmers in Germany was brought about by Raiffeisen. In the bleak and barren district of the Westerwald in which Raiffeisen worked out the true principles of agricultural credit, the peasants were reduced to such penury that during the famine of 1846 and 1847 their usual meal was sauerkraut and chicory brew, and, as Henry W. Wolff says, this half-starved population, "ill-clad, ill-housed, ill-brought up, by hard labor eked out barely enough to keep body and soul together with the support of the scanty produce of their little patches of rye, of buckwheat or potatoes and the milk and flesh of some half-famished cattle, for the most part hopelessly pledged to the Jews"

In the beginning Raiffeisen's sole object was to relieve the distress of these miserable creatures and rescue them from their usurious oppressors, and for this purpose he resorted to the use of pure charity without any notion of cooperation. His appeals for funds and assistance were liberally responded to because as mayor of one of the towns and always an active religious and social worker, he had a high official and personal standing in the district. But Raiffeisen, like Schulze-De-

litzsch, also found that charity was producing no lasting beneficial effect, and he transformed the benevolent associations which he had organized with the aid of his rich friends into loan offices for according credit to peasants, finally admitting these borrowers to full membership and responsibility, while striving at the same time to retain the rich members in the associations. This change, however, was not made until many years after he had formed his first society at Flammersfeld, in December, 1849. That the suggestion came from Schulze-Delitzsch is shown by the following extract from a letter written by Raiffeisen on July 9, 1864, relative to the formation of a credit society to replace a charitable association which he had established at Heddesdorf:

I was loath to give up the idea that coöperative societies should be based on charity without thought of self or pelf. I maintained my original idea in a letter to the well-known organizer, Mr. Schulze-Delitzsch, an efficient worker in economies, but experience compels me frankly to admit that such societies must consist only of the persons who personally need their help and thus have an interest in keeping them going.

With the object of preventing a repetition of the unfortunate experiences at Flammersfeld, I have resolved to allow the society here at Heddesdorf to be dissolved, and then to organize another society at an early date upon the new principles mentioned above. Already I have made most satisfactory progress, practically upon the model of the Schulze-Delitzsch associations. However, since the latter are formed mainly for cities and towns, I have made certain changes in the by-laws to adapt them to local conditions. So far I have obtained the signatures of about 300 reliable and industrious citizens of the district, etc.

Raiffeisen was not the sole originator of the type of credit society which bears his name. The first society of this kind was organized at Anhausen in 1862, probably by his brother-in-law, the Reverend W. Renckhoff, and it was not until April 25, 1869, that Raiffeisen adopted all its features, although he had assisted at the formation of the Anhausen society. Thus 17 years intervened between the dates at which

Schulze-Delitzsch and Raiffeisen brought their respective ideas to maturity. While the former was a national celebrity early in life, the work of Raiffeisen did not attain renown beyond its local environment until he had reached middle age. Indeed it did not achieve results of large proportions until after his death, but the posthumous fame of Raiffeisen now outshines the glory of his more successful rival, because cooperative credit is spreading more rapidly among the agricultural classes for whom he worked than among the tradespeople and laboring men who were the peculiar care of Schulze-Delitzsch.

With the names of these two men must be coupled that of Luigi Luzzatti of Italy, who originated in 1866 a modified type of the Schulze-Delitzsch bank which now is more extensively used than its model. The theories evolved by these three men must be studied carefully in order to arrive at a full understanding of the principles of cooperative credit, but the fact must not be overlooked that these three types of societies exist only in their native countries, and not always in their pristine purity even there, because laws subsequently enacted in nearly every European country, now require cooperative societies to be formed and managed and their business to be conducted according to statutory regulations. The agricultural mutual banks of France also deserve to be studied because they are a conspicuous example of state aid bestowed as judiciously as governmental assistance can be bestowed and the best example of the peculiar arrangement known as "syndicalism." The associations in all other countries are adaptations of these types. Most of them are mainly agricultural, and wherever they are numerous and active they have been formed into systems by grouping local associations under regional associations and linking up the latter with central institutions.

Indeed, cooperative credit for agriculture has never been introduced in any country without keeping constantly in view the aim of ultimately creating a system. Scattered agricultural credit associations operating independently of one another are foredoomed to failure or at least to an uncertain and temporary existence. An agricultural cooperative credit asso-

ciation which does not lead to the formation of other associations in its locality will quickly disappear, and especially is this true if lending and saving be its only facilities. Farmers as a rule do not have any money to place at interest or to allow to lie idle in banks because they can always find immediate employment on their own farms for whatever money they may make. Hence a cooperative association which serves merely as a safe place for deposit and loans at current interest rates offers no attractions to farmers, for they can easily obtain that service elsewhere without assuming any of the trouble and responsibility of the management or subjecting themselves to collective liability for defaults of borrowing members.

The only difference which can exist between the interest rates of a coöperative credit society and an ordinary bank comes from the economies effected in the former by not paying large salaries or sharing profits with outside stockholders or third parties. The compensation of a coöperative for the use of his money or credit, like that of any other money lender must be regulated strictly by market conditions. The cooperative credit associations in Europe which do not demonstrate this practical truth are those assisted by the state or charity, and since their benefactors naturally demand participation in the control or management to assure a proper use of their aid, the spirit of mutuality and independence is weakened by this outside interference. In the few countries where the associations depend on charity or state aid, the members lack private initiative, are inclined to look upon the donations and appropriations as gratuities not to be repaid even by thanks, and are in constant need of new benefactions to keep them together.

What then induces farmers to form a cooperative credit society? The reason is that besides the reduction of interest rates on loans resulting from the saving of expenses, it offers other advantages of a more important character by acting as the business head or financial center of all activities in the neighborhood. It either makes collective purchases or sales for members, as in the case of the Raiffeisen credit societies,

and thus enables them to obtain supplies at wholesale prices and to dispose of their products without paying commissions to middlemen; or else, as in the case of French syndicalism, the credit association or its members form other associations connected with it for these purposes

It is a disputed question in Europe as to which of these arrangements is the better for farmers. The general belief, however, is that at the beginning, when the credit associations are weak and few in number, they should combine the purchasing of supplies and the distributing of products with their banking business, and that after cooperation has become firmly established in a locality, the credit association should leave trading and industrial pursuits to other coöperative associations specially organized therefor but so grouped around and identified with it that it may attend to their financial transactions. By the adherence of these associational members the importance of the credit society is increased, and it is able to keep its funds in constant circulation and to pay to depositors and to shareholders, if it has any, the highest interest rates realized by money within the area of its operations.

It is thus as necessary to study the systems of cooperation in the various countries, with their federations and unions which act as propagating and organizing bodies, as to study the associations composing them. The central and regional institutions are either joint-stock corporations or associations with variable capital, whose shares are held by the associations next in rank under them, and whose affairs are conducted by managers elected by these shareholders. The majority of the local associations for credit as well as for industrial and mercantile purposes have a variable capital, but many of the credit societies,—and these are the base of all,—have no share capital but operate with deposits and loans attracted and obtained by the collective liability, usually unlimited, of members.

CHAPTER XXI

THE SCHULZE-DELITZSCH PEOPLE'S BANKS

Early Life of Schulze—Founding of Associations for Workingmen—Political Career—Later Loan Associations—Spread of Movement—Attitude of Prussian Government—Death and Reputation of Schulze.—Henry Charles Carey.—Claude-Frederic Bastiat—Scotch Banks and "Character" Credit—Plan of Schulze People's Bank—Operation and Organization of a Bank.—Objection to Centralization

HERMAN SCHULZE was born on August 29, 1808, at Delitzsch, a small town in Prussian Saxony, whose name he subsequently added to his own. His ancestors had been mayors and judges for generations, and he was the oldest of ten children of a distinguished magistrate. He graduated from the University of Leipzig, went through the law school of the University at Halle, was admitted to the bar at 22 years of age, and after passing the competitive examinations was placed on the eligible list for appointment to a position in the judiciary department of the Prussian Government. He was assigned to duty in the court of Naumburg and soon afterwards in the chamber of justice at Berlin. He quitted Berlin in 1841 to take a similar post at Delitzsch, the easy responsibilities of which enabled him to make a number of trips to foreign lands, including France, the Tyrol, Italy, Norway, Sweden, and, some say, England. His inclination towards political life led him to study economics and the science of government, and there is reason to believe that during his travels he familiarized himself with the French artisans' associations for buying raw materials, the English laborers' wholesale buying associations, and trade unions and the Scotch methods of banking, because cooperation, currency

reform and the diffusion of credit were at that period topics of lively discussion throughout the Germanic Confederation.

Upon his return to his native town Schulze engaged in social uplift work. He organized an athletic and glee club, of which he became president, and actively interested himself in the social and political life of his community. In the lean years of 1846 and 1847 he assembled a relief committee, collected funds and rented a mill for buying and grinding flour and a bakery for making and distributing bread to the destitute free or at a low price. After the famine he formed an insurance society for the poor against sickness and death, and during the next few years various other societies were formed in rapid succession, by his direct assistance or as a result of his teachings, which included a traders' bank at Elbing in 1848; an association for buying raw materials for carpenters and shoemakers at Delitzsch in 1849; a loan office at Cuestrin in 1849 and another at Delitzsch in 1850; a food-supply association and a credit society at Eilenburg in 1850; a food-supply association at Delitzsch; an association for buying leather for shoemakers at Bitterfeld, and an association for buying cloth for tailors at Delitzsch in 1853.

Schulze was elected a deputy from Delitzsch to the National Assembly at Berlin in 1848, and thereupon changed his name to Schulze-Delitzsch to distinguish himself from his many relatives and another Schulze in the legislature. Schulze-Delitzsch was a progressive in politics. He participated in the debates and boldly opposed the attempts of the Government to establish a military dynasty and intervene in all human affairs. He was appointed chairman of the legislative committee formed to investigate the labor question and his recommendations did not meet with the approval of the Government. He also voted against increasing the war taxes and was indicted on this account for treason in 1849 along with the majority of the Assembly. Schulze-Delitzsch conducted the defense. All the defendants were acquitted by a jury in Berlin, whose verdict was inspired not only by the rights of the case but by the indignation aroused by the

invasion of the Assembly by an armed force under orders from the Minister of War. Schulze-Delitzsch's victory made him a popular hero but it inflamed the animosity of the Government, which had looked upon him with suspicion and distrust ever since he began to organize associations for poor workmen and tradespeople.

A reorganization of the judiciary gave the Government an opportunity to satisfy its grudge against Schulze-Delitzsch by relegating him to Wreschen, a small Polish village in the Duchy of Posen on the Russian frontier. He was assigned to this post practically as an exile, but he applied himself with assiduity to the discharge of his duties, and added to his fame by settling satisfactorily an important and difficult land-credit case. His request for a furlough to recuperate his health and attend to his personal affairs at home was denied. He left Wreschen, nevertheless, and when the Government docked his salary and was preparing to show its displeasure at his unauthorized absence in a more emphatic manner, he tendered his resignation from the judiciary service and in 1851 returned to Delitzsch to live.

Schulze-Delitzsch found that during his exile his associations had been neglected and that the society for loans at Delitzsch was doing nothing. With the exception of the Eilenburg association all the associations were charitable, and although they received deposits and borrowed on the collective liability of members, they were managed and financed entirely by the rich and well-to-do members. The Eilenburg association, however, was a pure cooperative credit society based on self-help and managed by the borrowing members. It began with 180 members and in 1852 had 586 members to whom it had made 717 loans averaging 200 thalers (\$142) each. A few years later, however, it disbanded because of a misunderstanding between Dr. Bernhardi and the tailor Buerman who, as stated in the preceding chapter, were its founders.

The loan association of Schulze-Delitzsch, at Delitzsch, was composed of members of his athletic and glee club, and it was organized in 1850 as the direct consequence of a refusal of the savings bank in that town to extend financial help

to the various associations which had been organized in that locality. The first step which Schulze-Delitzsch took upon his return from Wreschen to put the association on its feet was to request the municipal authorities to advance it 200 thalers for working funds. This request was refused, although Schulze-Delitzsch offered to let them designate two judges and one alderman, one of them to be chairman of the board of directors, to serve as a committee with one vote in the administration of the association. Schulze-Delitzsch thereupon resolved to reorganize the Delitzsch association and base it entirely upon the principle of self-help which had proved so successful in the Eilenburg society, and this was done in the summer of 1852. The membership immediately rose from 30 to 150 and the society was soon able to obtain all the money sufficient for its needs at five per cent. Schulze-Delitzsch never again asked for public aid or charity; his early appeals he ever remembered with regret, and he excused them by referring to the overwhelming emergencies of the times.

Gradually the two credit associations at Eilenburg and Delitzsch were followed by others in the province of Posen and the kingdom of Saxony. The next was formed in 1853 at Zoerbig near Delitzsch, and others were formed in 1854 at Eisleben and Peine, and in 1855 in Cella, Meissen, Bitterfeld and Sangenhausen. By 1859 there was in existence 183 associations with 18,676 members, and it was decided to hold a convention to discuss ways and means of giving a proper direction to the movement and extending it throughout the country. Schulze-Delitzsch planned to hold the convention at Dresden, but this was forbidden by the King of Saxony who suspected some political purpose arising from the widespread discontent which then prevailed among tradespeople and workmen, and the convention was transferred to Weimar. Twenty-nine associations were represented by 38 delegates. A permanent organization was formed which subsequently became known as the General Federation. Schulze-Delitzsch was elected president, and was voted a salary to consist of two per cent of the net profits of all the associations,

on the understanding that he should engage in no other business and should devote all his time and ability to the Federation. He accepted this position with the title of "salaried agent and counselor of the mutual cooperative associations of Germany," and from 1860 until his death he devoted himself exclusively to its duties.

About this time Schulze-Delitzsch was elected to the Chamber of Deputies again and thenceforth became one of the most conspicuous figures in public life, always fighting for cooperation and the rights of the plain people. On the one hand, he continued to denounce the militarist tendency of the Government, and his opposition was so formidable that King William I of Prussia is alleged to have said, "We shall see in the end which of the two shall triumph, Mr. Schulze or myself." On the other hand, Schulze-Delitzsch was the foe most hated and feared by the socialists. Lassalle made him and his doctrines the principal objects of attack. After the untimely death of this brilliant theorist in 1864, the gage of battle was taken up by other violent protagonists, but they were unable to check the continuous increase in the number of Schulze-Delitzsch's societies and followers. In the face of Bismarck's opposition Schulze-Delitzsch had practically made a political party for himself through his talents for writing, speaking and organizing. In 1864 admirers presented him with about \$37,500 raised by public subscription. He accepted this gift on the condition that after his death the revenues of the fund should be used to help worthy men engaged in social welfare work. The refusal of the French authorities to allow an international congress on coopération to be held at the Universal Exposition at Paris in 1867 added to the strength of the movement he had inaugurated on the Continent, and he was idealized at home and abroad as the greatest advocate of democracy and friend of the lower classes in Europe.

By 1861 there were in the German Confederation 364 people's banks, besides many cooperative societies for other purposes than credit, with 48,760 members. They were operating practically outside of the law since no legislation relating to

coöperation had yet been enacted. They frequently met with interference by the public authorities, who claimed the right to approve their articles of agreement or by-laws and to forbid operations without such approval. At the annual convention in 1861 it was resolved to secure proper legislation. Schulze-Delitzsch drafted a bill for this purpose in 1862 which became the cooperative law of Prussia in 1867 and of various other German states in 1871 and 1873. For this the University of Heidelberg conferred upon him the degree of doctor of laws, because he "was the man who created for associations the right form and new laws, and thereby improved and enlarged the science of jurisprudence." But he did not live long enough to witness the completion of his legislative work with the enactment of the German law of May 1, 1889, which still remains in force with a slight amendment made in 1896.

Schulze-Delitzsch died at Potsdam on April 29, 1883. In that year there were no less than 1,910 Schulze-Delitzsch societies with 466,575 members in Germany, and hundreds of others of a pure or modified form of his type in other European countries. In 1891 his statue in bronze, the cost of which was paid by international subscription, was erected in the central square of his native village, and a few years later a monument costing more than \$70,000 was raised to his memory in Berlin. But long before his death his leadership had been disputed and the cooperative movement in Germany divided into warring factions. His writings, beginning with his first book in 1853, however, were read by all as text books, and were the most effective literature for spreading information on the theory and practice of coöperation on the European continent during the latter part of the nineteenth century. The authors who directed the trend of Schulze-Delitzsch's thoughts on politics and economics were the American Henry Charles Carey, and the Frenchman Claude-Frederic Bastiat, who was himself a follower of Carey. Indeed Schulze-Delitzsch was called by Lassalle the Bastiat of Germany, while by Benjamin Rampal, the French philanthropist who willed a large fortune to the poor, he was looked upon as Carey's chief disciple.

Carey, the son of an Irish bookseller, lived in Philadelphia from his birth in 1793 to his death in 1879. In America he is known as the first protectionist. In Europe he is famed as one of the first political economists who considered that the rights of man are more important than the rights of property. Carey believed that every individual was entitled to a fair share of the wealth accumulated in society according to his capacity to acquire it. He attributed the concentration of wealth under the control of those who did not create it to an unnecessary multiplicity of intermediaries or middlemen, and to eliminate them he advocated associations among producers and consumers so as to retain the control of trade and commerce within their own hands.

Bastiat was born at Mugron, in the canton of Landes, in 1801, and died at Rome in 1850. He was one of the most famous of the French political economists of his day. He pointed out that in isolation a man's needs are greater than his power to supply them, while in combined action with associates they are considerably less. Hence, wealth tends to increase in a social state, and its increase enables each succeeding generation to raise a more numerous progeny. Division of labor and exchange necessarily arise out of this continuous increase of wealth and population. Bastiat did not object to this condition. He wished to readjust society so as to reconcile the interests of the different classes in it, and to prevent one man's profit from being another man's loss. He believed in private property and denounced those among the socialists who wished to turn it over to the government, and the levelers who wished to redistribute it share and share alike among the people. He declared that property was the fruit of labor and its stability the greatest inducement to labor. He felt that every individual would acquire his just share if he had the right and opportunity to work. Malthus' fear of excessive population did not alarm Bastiat. In his opinion the means of subsistence were practically inexhaustible, and the increasing numbers of people, if their efforts could be combined, would make supplies plentiful, cheapen the cost of living, do away with the harsh neces-

sity of continual work, and afford leisure for recreation and for social and intellectual improvement

The salary or wage appeared to Bastiat the best way to judge the worth of laborers. He encouraged them nevertheless to form societies for savings and for mutual assistance in case of sickness or want, and finally he came out unreservedly in favor of progressive association, that is, the gradual bringing together of capital, labor and talent for the good of humanity. The sole condition he imposed was that associations of this nature should be voluntary and that their expenses should not be borne by those who refused to enter them. Had Bastiat not died at a comparatively early age, he would probably have been a great writer on cooperation, for in his last book he asserted that society is nothing more than association, and that the failure of its parts to act in harmony "clearly shows that it is still in its infancy"

According to Mr. A. de Malare, who visited Schulze-Delitzsch in an official capacity in 1868 and published an account of his interview in a report submitted to the French Chamber of Deputies in 1894 in which he asserts, "herein it is Schulze-Delitzsch who speaks through my voice," the great German cooperative drew his ideas regarding the diffusion of popular credit from the banks of Scotland and adopted for his people's banks their methods of extending credit, particularly those of cash credits and the use of the indorsement of neighbors instead of mortgage or collateral as security for short-time loans.

The Scotch banks almost from their beginning have extended their services to small customers. In 1695 the Bank of Scotland was chartered with a monopoly and unlimited powers of issue as to both amount and denominations. This monopoly was taken away when the Royal Bank was incorporated in 1727. Trade and commerce proved to be too light to keep the resources and notes of both these banks in circulation, and in 1729 the Royal Bank began to send agents around the country. They visited the fairs and the villages on market days. They taught the shopkeeper and the crofter that the use of money and the backing of the bank could be bought at an

agreed price as any other commodity. They also taught the young men how their reputations for honesty and industry, if known to neighbors, could be capitalized for an amount sufficient to set them up in business.

If the agents found a worthy man who needed a little money for some economy or productive purpose, they would give him a drawing account at the bank up to a specified amount upon the indorsement of a couple of friends, with the understanding that he would deposit his savings or gains with the bank. The agents came promptly at appointed times to collect these sums, and interest was allowed and charged on the daily balances. Thus the bank kept watch over the use of the money that was drawn and closed the account if it became inactive or threatened a loss. Hence there was every reason for a person, when once he had entered into relations with the bank, to be industrious and accumulate as large a balance in his favor as possible. This practice is called Scotch or cash credit, and the manner in which it is diffused through agents and local branches in Scotland has brought banking to the very doors of the people, implanted a spirit of thrift, honesty and enterprise in them, and enables them by close connections with the banks to obtain expert advice as well as financial assistance in the conduct of their affairs.

The credit accorded in Scotland on the good faith of the borrower and his reputation for industry, sobriety and thrift, when guaranteed by two or three friends, Schulze-Delitzsch designated as "character" credit. Since no person or institution in his locality ordinarily would take such a risk, the only alternative was the usurers. He knew, however, that the average man is honest and able to pay debts incurred for his own business purposes if given a reasonable chance, and finally he hit upon the plan of having the borrowers assume their own risks, of combining them in groups to make the individual risk as light as possible, and then of diffusing this form of credit by inducing the trading and working classes to form little banks, organized and managed like the cooperative associations then existing in England, for

collecting and investing their own savings and for raising money from outside sources for members in case of need on their joint and several liability. His plan as outlined by himself for his first bank in 1850 was as follows:

Individually you find difficulty in obtaining the necessary money to buy the raw materials which you require in your work. So then organize an association by a regular contract of agreement upon the collective liability of such of you whose habits of industry and correct living are known in the neighborhood.

Do not forget that your object should be to borrow to produce, that is, to give a plus value to the money you have borrowed so that you may be able to pay it back with interest and some profit. But never borrow for consumption, as is frequently the case with wage-earners who render themselves liable to default. Let your union be strictly a credit association among producers, and small producers if possible.

Then you should gradually form a capital stock or guarantee fund to be composed of payments on shares of \$30 or less and entrance fees. Each member should pay his dues monthly and thus little by little pay up the amount of his share. After the venture has proved successful you might increase the fund by adding to it a part of the profits of the association.

Each of you should deposit his savings with the association, which should pay interest on them, but naturally somewhat lower than the interest on loans. These deposits will form at the same time an additional guaranty fund and a working capital. Your association will then be a savings bank, but one that will be managed by the depositors through officers of their own selection.

If your association should need more money, you should go to some lender and offer to him your joint and several liability as security therefor. Each member should be responsible to the full extent of his individual property and resources for all operations. "All for one and each for all" should be your motto. This unlimited liability appears to me indispensable at the beginning, in order to put all on guard in an association composed of persons not yet accustomed to forethought and financial matters. It will oblige each to watch his associates as well as himself. Later on, when you have become better trained

and acquainted with each other, and lenders appreciate your credit value, you might limit this responsibility. But for the present it should be unlimited.

Your association should be based on personal credit. A cooperative association of small producers which can obtain credit only upon real estate, or by pledging collateral, chattels, implements or live stock, does not deserve credit. It would be dangerous to extend credit to it. Your own selves and characters must create your credit, and your collective liability will require you to choose your associates carefully, and to insist that they maintain regular, sober and industrious habits, making them worthy of credit.

This is a reason why you should not resort to public or charitable sources for loans. This is also why no official of a government savings bank, or manager of a foundation formed by donations of the state, province or commune, or grand lords or rich persons, should be connected with your association. Such people are inclined or prompted to extend credit because of patronage or politics, and on considerations quite different from your real worth as producers.

Away with the complaisant and charitable lender. Away with the loan which has the appearance of a gift, and which does not obligate the borrower to the acknowledgment of his debt and bind him to its prompt and positive repayment. For any loans you may need, address yourselves to a banker, who will treat you as any other applicant, a banker who selects his customers without any view of charity or politics, and to protect himself against possible loss assures himself that the borrower is clever, capable, orderly and good for the repayment of the loan.

Moreover, have nothing to do with the man who would procure you easy credit, a credit more easy than that open to other producers. That man would offer to you a deadly gift. Easy credit is often the cause of ruin, especially to the small producer who has not yet habits of order and forethought, and who lives from day to day without keeping an exact account of his affairs, and knows nothing about the cost of production or its returns.

What you need is fair credit on terms equal to those accorded to any other good industrial enterprise. Go to a banker who does not depend on public or charitable funds but who risks his own fortune in his business. Everybody knows that there is no lack of money during ordinary times at the local banks.

What they most need is good borrowers. Any one of them will supply you with money, and it will do more than that. It will help you to rise from the class of workers without credit to the class of workers with credit; and you will improve your well-being every degree that you rise in the economic scale of producers.

Without doubt it will take you longer to reach your aim through yourselves and coöperative association than it would by resorting to government banks and charity. Yes, certainly it takes longer to build credit up from the bottom than to let it come down from on high; and it does not please small producers to say to them: "Only by well regulated lives and by proper rules of conduct imposed upon yourselves, shall you obtain credit." Nevertheless, this credit, which you do not obtain from another as a bounty or alms, is in reality the credit which you create by elevating yourselves. Results may be slower, but they will be more sure, deep and lasting.

Your association, having thus opened the sources of credit, will grant individual loans to members out of its disposable funds. The executive committee elected from the members at the annual meeting of the shareholders, may be authorized to lend to any member a sum double the amount of the value of his own property, and even more, if guaranteed by the indorsement of two members. The loans should be granted for three months ordinarily, and for six, nine and twelve months or more, in cases where the committee shall deem it wise to prolong the time. It may also refuse loans to a member who cannot give sufficient security, defaults payments, or gets into legal troubles.

Very few changes have been made in this original plan. Schulze-Delitzsch worked among laborers and tradespeople in the villages and cities, and today the people's banks are mostly urban, although many have a large agricultural business and membership. But whether in town or country they spurn the thought of state aid and charity, public or private, and depend upon the industry and economy of members to raise the funds they need. While serving mainly the middle classes and sometimes poor people, they have no use for idlers, profligates or incapable persons. They are not reformatory houses or benevolent institutions. They admit

only those who have orderly habits, good reputations and sufficient cash in hand to prove that they are worthy applicants. All of the shares are held to be equally liable for any obligations incurred by their bank. Unlimited liability is still recommended for a small society at the beginning, but this was never an essential point. Schulze-Delitzsch and his immediate successor warmly advocated it, but the national convention of his societies in Germany in 1894 passed a resolution favorable to limited liability, and in 1896 declared that no distinction should henceforth be made in the matter.

The objects of a people's bank are to encourage saving among members and to extend or find credit for them. As a first step towards accomplishing these objects Schulze-Delitzsch provided that each member should subscribe for a share. The average value of shares for an unlimited-liability bank is \$75, and for a limited-liability bank, \$125. The member may pay it up in lump or by instalments as low as 12 or 25 cents a week. In addition he must pay an entrance fee. Schulze-Delitzsch set this at \$2.50, but in well established societies it is often three or four times this amount, so as to equalize the rights and obligations of the old and new members. It may be paid by monthly payments, but can never be withdrawn by the member as it becomes the property of the bank until dissolution.

The amounts paid on the shares belong to the members and may be withdrawn upon retirement, usually on three months' notice. They form the capital of the bank, which increases and decreases with the number of members and their payments and withdrawals. By reason of this the capital of a people's bank differs entirely from the capital of a corporation, which is fixed by its charter and when once paid in by the shareholders becomes its exclusive property. Schulze-Delitzsch believed in a large capital, since it gave the bank a standing in financial circles and also indicated that it was composed of thrifty and industrious members. Consequently he prescribed no territorial limits, but allowed the banks to operate through agents and branches and as far away from

headquarters as conveniently practicable. He urged them also to gather members from various trades, with the idea that their savings and earnings coming in at different times would steady the inflow of capital. He wished each bank to be the chief savings and loan institution in its locality, and many of them have become such. The only limit he placed as to size was that the capital of a bank should be one-tenth of the amount of its outstanding obligations at the start, one-fourth at the end of the second or third year of its existence, and finally one-half. But he restricted the holdings of each member to one share, so as to prevent the bank from falling into the hands of rich people.

Besides giving the bank a financial standing, the capital acts as a guaranty fund to protect members from their personal liability. The reserve is created to meet any losses which cannot be paid out of the earnings. Its source, in addition to all entrance fees, is a certain portion of the profits sufficient to maintain it always at least up to ten per cent of the capital. In a new bank one-fifth of the profits may be used for this purpose; in an old institution five or ten per cent will suffice, and the balance of profits may then be distributed as dividends. The method of distribution varies. In most banks it does not begin until the member has paid up a certain part of his share. Profits are then credited on it, but not till it has been fully paid does it draw dividends in cash. Schulze-Delitzsch believed in large dividends in order to encourage thrift and attract capital. Six and seven per cent are not unusual now.

Large dividends are objectionable and dangerous from the cooperative point of view. They come mostly from the borrowing members and add to their burdens, thus creating a conflict of interests within the bank. Hence many writers contend that they should not exceed the rate at which money may be procured in the open market. Unless some such restriction is imposed it is difficult for a people's bank to maintain its true character. For a cooperative association money is easy to get, especially when it is large and offers attractive profits. But when once the ambition for large dividends

arises, the members who join for gain predominate over those who join for obtaining credit and the bank is led to place its funds in outside investments. This is particularly the case with a few large concerns of the limited-liability type, which have become veritable capitalistic banks and use their funds in ventures with which their members have no connection.

But as a general rule the people's banks remain faithful to their members. Moreover, the organization and management are so arranged that cooperative methods and equitable treatment for all is practically assured. The administration of each bank is entrusted to an executive committee and a board of supervision elected at the annual meeting of the general assembly. The general assembly is composed of the shareholders of the bank, each of whom has but one vote which cannot be balloted by proxy. The assembly meets annually to elect officers, quarterly to review the affairs of the bank, and on special occasions when called by the executive committee or one-tenth of the members. The majority prevails, except in important cases like changing the by-laws or value of shares, removal of officers, or dissolution, when three-fourths of the votes of at least one-third of the members are required. A person who belongs to an unlimited-liability bank cannot be a member of any other bank.

The executive committee is composed of the manager, cashier and comptroller. They must be members and cannot be elected for a longer term than three years. They transact the actual business of the bank. No business may be done outside of office hours or without the concurrence of at least two of the committee. For compensation they receive annual salaries and a percentage of the profits.

The board of supervision usually consists of nine or more members, one-third of whom are retired each year. They select a chairman and may act only by a majority vote. No supervisor may take part in any proceeding in which he is personally interested. The board meets once a week. It receives weekly, monthly and quarterly statements from the executive committee and supervises its official conduct. The board and the committee act jointly in granting credit, handling

the funds, borrowing money for the bank, suspending employees, admitting and expelling members, auditing accounts and preparing reports for the general assembly, and in all other matters of prime importance. The board may temporarily suspend the executive committee or any part of it, and take entire charge of affairs until the general assembly is called to decide upon the case. The supervisors are compensated by fees paid for the meetings they attend.

By such an administration, elected for a short period and subject to dismissal upon the vote of a small minority, the members may exercise absolute control over the bank, and compel it to be properly managed for their exclusive benefit. A Schulze-Dehltzsch or people's bank does strictly a banking business, receiving deposits, extending credit, buying and selling securities on commission for members, and sometimes making collections for them. It can own no real estate except for its office building, and must strive to avoid investments and transactions of a speculative or hazardous nature. The funds for its business are its capital, reserves, sight and time deposits of members and outsiders, and money borrowed in case of need on the collective liability of its members. It uses these funds without regard to origin in its various operations, although it endeavors to keep its reserves in easily negotiable securities.

The credit facilities of a bank are for its members only, and small are preferred to large loans. No member of the executive committee may receive credit. Supervisors may receive credit if approved by a committee specially appointed to consider the matter. Outside investments are made only to prevent funds from lying idle or to place reserves in safe securities. But although the bank is run for the benefit of members, they cannot make use of its services unless they prove themselves worthy of them. In the large societies the executive committee, with the assistance of the board of supervision, prepares a list, register, or card catalogue on which are recorded opposite the names of the members all facts bearing on their solvency and the maximum of credit that may be accorded to each. The latter figure increases

with the payments made on the shares, but this is not definitive. Each case depends on its individual merits and security is required. Real-estate mortgages and members' shares are rarely taken and some banks do not allow them at all. Chattel mortgages, pledges of not easily perishable personal property, warehouse receipts, bills of lading, collateral and bankable paper are frequent, but the most customary and desirable security is the indorsement of two or more friends, usually fellow members.

The people's bank gives all kinds of credit. They make loans on an I O U. or promissory note and discount book debts and bills of exchange. But the two methods which seem to be preferred are accepting bills of exchange and granting advances on current accounts, or cash credit. In the former of these two methods, a member draws a bill on his bank in favor of his creditor. The bank writes its acceptance for a small fee across the face of the bill. The creditor indorses and sells it at some other bank or otherwise disposes of it in the course of his business. By thus using its name and financial standing the accepting bank can accommodate members without passing over a cent of its funds, while members may make use of their credit as actual money. Cash credit is practised in the same way as in Scotland, but the current account on which the cash payments are debited and credited is closed every six months. The time on all other forms of credit is generally three months. Punctuality is rigorously exacted, but renewals are allowed wherever equity or necessity demand them.

Schulze-Delitzsch opposed centralization and so no system has been created out of his banks. The "Federation of Industrial and Economical Cooperative Societies based on the Principle of Self-help," or General Federation, which was proposed at his first convention in 1859 and assumed definite shape in 1864, does not prevent independent action, nor does it interfere in the internal affairs of the societies. Schulze-Delitzsch believed, however, that the banks should unite by provinces in Prussia and by states or groups of small states in the rest of Germany, and all are now grouped together

in this fashion under the Federation. Three of these groups founded provincial banks, and Schulze-Delitzsch helped to start a central bank at Berlin, but only a minority of the banks joined. In 1868 he organized a Bureau of Exchange to facilitate financial relations between the societies. This still exists, and with the assistance of the Dresdner Bank, which has established a special department for the credit societies, takes care of whatever transactions they carry on among themselves.

CHAPTER XXII

THE RAIFFEISEN SYSTEM

Life and Character of Raiffeisen.—Early Work for Cooperation.—Change from Charity to Self-help—Growth of Societies.—Differences from Schulze-Delitzsch System.—Central Agricultural Land Bank—General Federation of the Rural Cooperative Societies.—Reasons for Success of His Principles.—Agricultural Cooperation and Combination His Contribution.

FREDERICK WILLIAM HENRY RAIFFEISEN was born on March 30, 1818, at Hamm in the Rhine Province, Germany. In his ancestry, traced back to 1569, there were many teachers, ministers and burgomasters. His mother was a devout Christian woman of strong character. His father, once a clergyman and mayor of this little village, was addicted to drink, became demented from alcoholic excesses and died in 1821, leaving his widow and children in poor circumstances. Young Raiffeisen was inclined to religion from childhood and was confirmed in the Evangelical or Lutheran faith in 1832. Poverty prevented his going to college but the pastor of his church, attracted by his studious habits, instructed him for several years after he left the village school and gave him a good education in the rudiments of learning.

At the age of seventeen he joined the army. In 1835 he was a volunteer in an artillery brigade stationed at the fortress of Cologne, whence he was sent in 1838 to the army school at Coblenz, where he stayed two years, studying mathematics, physics, chemistry, and other subjects. After passing the examinations, he was made a master artificer in 1840, and was detailed the following year to the royal foundry of the Sayn where the Government cast cannon. Shortly afterward he was afflicted with a disease of the eyes which

threatened blindness and had to quit the army and give up his hopes of becoming a commissioned officer.

Raiffeisen then entered the civil service and obtained a clerkship under the municipal government of Coblenz, through the influence of an uncle who was a prominent lawyer. In 1843 he was appointed secretary of the congressional district of Mayen, in which office he displayed such marked administrative abilities and attention to duties that he was elected in 1846 the burgomaster or mayor of Weyerbusch, to which Flammersfeld with its 33 villages was added in 1848. His first marriage occurred in 1849, and of this union were born seven children, two of whom became well known, his son Rudolf, who succeeded him as the head of his coöperative system, and his daughter, Amelia, who acted as his faithful amanuensis and assistant manager of his affairs, public and private, during the years of his partial blindness until his death.

In 1852 Raiffeisen was elected mayor of Heddesdorf, one of the boroughs of the city of Neuwied. After this date his sight failed rapidly and his health, which had never been good, broke down completely. He suffered from rheumatism and congestion of the brain and was troubled by vague fears and premonition of death. His deeply religious spirit became morbidly intensified and Amelia often found him on his knees in prayer. His opinionated and obstinate disposition, which was always hard for others to bear, grew worse, and his superiors were quite willing, if not anxious, to be rid of him. His reelection as mayor in 1863 was not confirmed by the Government, so he retired from public office in 1865 on an annual pension of about \$300 and the possession of a very small estate.

Obliged to begin life anew after middle life, Raiffeisen settled at Heddesdorf and started a little cigar factory. Not getting satisfactory returns he closed this out. He then sold life insurance and opened up a wine agency, which continued to be his means of livelihood for many years. He ran in debt for a while and then began to prosper. But money-making was of only secondary importance to him, and thenceforth he

gave practically all his time, energy and fortune to organizing rural cooperative credit societies. In 1866 he published a book, explaining the principles and practices of such societies, which had a wide circulation and went through a number of editions. In 1868 he married again, his first wife having died in 1863.

In 1882 Emperor William I sent him a letter in appreciation of his great work in helping the farmers, accompanied by a donation of about \$7,200. A similar mark of respect was shown by the present Emperor, William II, who gave him about \$4,800. Early in 1888 Raiffeisen became fatally ill at his home in Heddesdorf, but kept his mind clear till the end. On March 13, after attending to the routine affairs of the day, feeling the approach of death, he devoted himself to prayer and calmly passed away. His statue stands in front of his house in Heddesdorf. The Crown Prince and other notables of the Empire, prominent representatives from European countries, and thousands of German farmers were present at its unveiling in 1902. He is revered in Germany as the patron saint of agriculture.

Raiffeisen was harsh and rigorous, with an irascible temper easily inflamed to anger by contradiction or opposition, so he did not have many intimate friends. He presented a stern appearance with his almost sightless eyes, but his demeanor was singularly pleasing when he relaxed himself in occasional recreation from his arduous and constant labors, or was engaged in conversation with persons who did not dispute his views. Habitually he was taciturn and moody. He had a weak voice and slight talent for public speaking, yet made a strong impression upon his audiences by the earnest and logical manner of his address. His book learning was meager, since all his reading and writing had to be done through others on account of his semi-blindness, hence his ideas were mostly original with himself. He was a worker rather than a student. His strength lay in his indomitable will, his persistent fidelity to ideals, his ability to toil hard and long and to make practical use of whatever theoretical knowledge he possessed, and above all in his deeply religious nature.

and charitable spirit which made him look upon his self-imposed task of uplifting the poor as a divine mission.

"Inasmuch as ye have done it unto one of the least of these my brethren, ye have done it unto me," was his life's motto, and he denied himself ordinary comforts, traveled third-class and stopped at cheap hotels that he might save money to carry out his mission. As he went up and down the country and visited his credit societies, the members called him "good father Raiffeisen," and many Catholic priests and Protestant ministers acknowledged that his work for coöperation had more moral effect on the peasantry than all their sermons and ministrations. But the plans of this kindly, cranky, half-blind, poor and chronically sick philanthropist would often have gone awry had it not been for his daughter Amelia and several wise friends to whose advice alone he would listen.

Raiffeisen's work for coöperation did not begin in earnest until about a year prior to his retirement from public office, although long before that time he had made a name for himself locally by organizing associations which exhibited coöperative features. In 1846 he formed at Weyerbusch an association for buying food and another for baking and selling bread to the destitute. In 1847 he formed an association to supply peasants with wheat and potatoes for planting, and in 1849 another to lend money to peasants around Flammersfeld and to sell them cattle to be paid for in five annual instalments. Famine was stalking through the land during this period. It had decimated the population and put the farming and working classes in abject want. Raiffeisen was mayor, the chief civil head of the local government, and he considered it his public as well as his moral duty to alleviate this suffering. His associations reduced the price of bread fifty per cent, and brought about the expected relief. But they were not, strictly speaking, cooperative. They were simply groups of benevolent persons who out of charity admitted to their benefits such of their unfortunate brethren as were worthy of help, and they were used only for the poor. The beneficiaries had no voice in their management.

The association at Flammersfeld illustrates the type of credit society with which Raiffeisen began. It was composed of 60 wealthy citizens of the place, induced to join perhaps because of Raiffeisen's political power and influence as mayor. Since they rendered themselves liable for all debts incurred, he allowed them the entire control and the right to decide who should be members and receive loans. In 1854 he founded at Heddesdorf his second credit society along similar lines. Besides lending to peasants who were in the clutches of usurers, the Heddesdorf society attempted to find homes for abandoned children, give employment to mendicants, persuade the shiftless to work, and establish a free library. This ambitious scheme proved a failure and was abandoned after a few years' trial.

Indeed Raiffeisen had trouble with every one of his early societies, owing to the fact that their rich supporters would not give them any personal service after the enthusiasm he inspired had died away. He realized eventually that charity by itself has no lasting effect and that he would have to utilize more largely the principle of self-help. One of Raiffeisen's letters on this subject showing that he reached this conclusion after studying Schulze-Delitzsch's work has been given in a previous chapter. In another written in the same vein he said: "I have decided to form a society upon this plan [of self-help]. The thing has succeeded perfectly in the societies founded by Schulze-Delitzsch."

This new society was started in 1864 at Heddesdorf with the sole object of granting loans to members recruited within that locality, but it was preceded by two years by the mutual credit society at Anhausen for the organization of which Raiffeisen was only partly responsible. The Anhausen society not only accorded credit but also bought fertilizers, seed and oil-cake to sell to members, with the hope, as announced by its chief organizer, that well-to-do persons not in need of loans would be attracted to become members by the cheap wholesale prices of these commodities and thus strengthen the standing of the society. This dual function subsequently became one of the characteristic features of a German rural-

credit society, but its adoption by Raiffeisen did not occur until June 13, 1869, when his Heddesdorf loan association by resolution dated April 25 of the same year was reorganized on the lines of the Anhausen society. Raiffeisen at the same time eliminated the urban population from his consideration and confined his attention entirely to the farming classes. Hence, 1869 is the year from which his rural cooperative credit movement should be dated.

Progress was slow, for he dealt with a densely ignorant and poverty-stricken people inherently distrustful of innovations, and Raiffeisen had to build up from the very ground. The Heddesdorf society stood alone until 1868 when five others were formed. Twenty-two more were added in 1869. After 1880 the number began steadily to increase and at the time of Raiffeisen's death there were 425 of his societies in existence. Between 1890 and 1894 the growth was very rapid. In 1912 there was in Germany one rural cooperative association for every 2,494 inhabitants and for every 3,365 acres of agricultural land, and two-thirds of these were credit societies, not all, however, of the pure Raiffeisen type.

In substituting Schulze-Delitzsch's self-help idea for charity, Raiffeisen did not accept his rival's methods of organization and business, nor did he surrender his own conviction that the rich and the well-to-do should join with the poor in order to give standing to the credit societies. Indeed he firmly adhered to his original arrangement in this particular and continued to insist that the wealthy members should be accorded a voice in the management proportioned to the increase of strength which they added to the societies by becoming members. Unlike Schulze-Delitzsch, Raiffeisen was not afraid of the wealthy and powerful, because, as will be seen later, his organization was such as to prevent their exercising any undue influence, even if the societies had the good fortune to induce large numbers of them to come in.

Indeed, the systems evolved by these two founders of co-operative credit differ in so many respects that it is quite impossible for them to act in harmony, although they have the same object of creating credit for small amounts on the col-

lectivity of borrowers. Schulze-Delitzsch believed in a large, mixed membership drawn from an unrestricted area, Raiffeisen in a small membership of one class confined to an area containing not more than 2,000 inhabitants. Schulze-Delitzsch believed in fair salaries and compensation, Raiffeisen, in gratuitous service. Schulze-Delitzsch believed that a society should declare as large dividends as possible; Raiffeisen, that it should make no distribution of profit. Schulze-Delitzsch believed that a society should do a general banking business on three months' paper, and he abandoned the idea of watching the use of the money; Raiffeisen favored only the simplest kind of transactions and long-time loans running for years if necessary and amortizable or repayable by instalments, and he permitted loans to be granted for productive purposes alone. Schulze-Delitzsch believed in entrance fees and shares of such size as to keep out persons who did not possess a few assets or a small income. Raiffeisen was opposed to a capital formed by the shares of members and withdrawable at will on a short notice. He placed in its stead what he called the indivisible reserve, accumulated from slight additions to the interest rate and to prices, which remained the permanent property of the society, to be used as a guaranty and also as a working fund and in case of dissolution to be turned over to some new credit society which might be organized in the locality. As to members, he welcomed anyone whose character was vouched for by neighbors, even if he did not have a cent to his name.

Finally, the aim of the societies of Schulze-Delitzsch was purely materialistic, while the aim of Raiffeisen's associations was humanitarian. In fact Raiffeisen was a layman preacher, teaching non-confessional Christianity and brotherly love, and he strove to make each of his societies a center of educational and moral influence in its little community, as well as a source from which its members might obtain credit, money and all other things needed for acquiring and improving their farms and carrying on enterprises of an agricultural nature. Inasmuch as he knew that unlimited liability was the best way to inspire mutual trust and enforce mutual

self-help, he did not temporize with it as Schulze-Delitzsch did, but made it a cardinal principle. Furthermore, he wished to create a complete solidarity of interest in the class for whom he toiled; hence he strove to erect a great centralized system with himself as the supreme dictatorial head, while Schulze-Delitzsch thought that every society should take care of itself and join others only for convenience of exchange, propaganda, and standardizing methods and practices.

The chief point in which the Raiffeisen society differed in form from the Schulze-Delitzsch type was its absence of shares, but after Schulze-Delitzsch had forced his views upon the legislature and the second German law on cooperation was passed in 1889, requiring a capital stock, they became practically alike in regard to organization and administration. As required by this law, all Raiffeisen societies now have share capital, but this fact has not caused any change in the original spirit and purpose. The size of the share is fixed at \$2 50; it may be bought on time, so that the member need not put up a cent on joining, since entrance fees are not exacted. The dividend on this small share is never allowed to exceed the rate of interest charged to members on loans, and in the great majority of cases none is distributed in cash, but the sum due each shareholder is used for paying his subscription to the Federation's periodicals. The profits of the society are used, first, to make good any impairment that the paid-up capital may have suffered, one-fifth of the remainder is devoted to social welfare work, and the rest is transferred to the reserves. The reserves consist of a fund to cover annual losses and another known as the foundation fund. No figure is fixed for their size, but they are allowed to accumulate until they are large enough to supply the society with the necessary working capital, make it independent of outside assistance, and enable it to support some object of general utility for the benefit of the members. Both funds are indivisible, that is, in the event of dissolution they are not distributed among the members but are turned over to the Central Bank of the system for organizing a new society in the same place. If no society is formed within 30 years, they

become the property of the commune, to be applied to some local public purpose.

The committee of management of a local society consists of three members elected for four years, two or three of them retiring every two years; it meets once a month. The board of supervision consists of three to nine members elected for three years, one-third retiring each year, it meets regularly four times a year. Their duties correspond with the duties of similar officers in the Schulze-Delitzsch societies, with the addition that the managers must oversee the use of loans and attend to whatever buying and selling is done by the society. The only paid officer is the secretary, appointed by the members for four years, who acts as bookkeeper and treasurer; he may not be a member of either the board or the committee. The unlimited liability assumed by the members runs directly in favor of the creditors as well as of the society. Retirements are allowed on six weeks' notice to take effect at the end of the year. The members meet regularly once in the spring and again in the fall. The majority prevails, except that a three-fourths' vote is required for dismissing managers, altering the articles of agreement or dissolving the society. These meetings are held not only for transacting business but also for hearing lectures, exchanging views and discussing matters of general interest.

Besides granting credit to members and receiving deposits, the Raiffeisen credit societies may undertake the purchase in common of farm supplies, machinery and breeding animals to be used in common, the sale in common of farm produce and the purchase of tracts of land to be resold to members. The purchases do not include groceries or household necessities. They are confined to such commodities as seed, fertilizer, machines, coal, etc., by the car load at wholesale prices, and all may be bought from the society by the members on time. This commercial business is on the increase, and as a result a great deal of credit is extended on current accounts. Loans of over one year must be repaid in annual instalments or in sums of which the principal is a multiple. Shorter loans may be renewed by periods of three

months up to two years. The times of payment are fixed to suit the borrower and the purpose of the loan. The society reserves the right to recall all loans on four weeks' notice and always requires security. The least security accepted is the indorsement of some guarantor known to be good for the amount. On real-estate mortgages two-thirds of the value of the property is the limit.

Raiffeisen required each of his credit societies to become a shareholder in the Central Agricultural Loan Bank and a member of the General Federation of the Rural Cooperative Societies of Germany and of the union thereunder to which it should be assigned, and also to buy its supplies from Raiffeisen, Fassbender and Company. He was the managing head of these three institutions and formed them in accordance with his aim of bringing about the consolidation of the interests of all German farmers by means of a great centralized system. The firm of Raiffeisen, Fassbender and Company, consisting of his daughter Amelia, an adviser and himself, was formed by Raiffeisen in 1881 by turning over to it his wine business, the general agency he held of a large life-insurance company, and \$3,120 in cash. It sold the wine business and bought a press for doing the printing of the unions and publishing the journal of the Federation. But its principal business was to buy supplies at wholesale or on commission to sell to the associations. The profits were used entirely for paying salaries and expenses of the officers and employees of the system and for creating a permanent fund for perpetuating the work. The Central Bank took over this firm in 1899 and in 1909 sold assets and good will to the unions, which thereupon organized cooperative societies with limited liability to handle their part of its business.

The Central Agricultural Loan Bank was organized in 1876. Three provincial banks and a general bank had been founded in 1872 and 1874, but they were dissolved by the courts because the laws at that time did not allow one association to combine with another nor an association without shares to do a banking business. Consequently the Central Agricultural Loan Bank was formed as a joint-stock com-

pany and at the start its shares were held by officials in trust for the system. The present capital is \$2,400,000, divided into shares of \$240 each, which may be held only by credit societies and the Bank's officials. The largest holding is five shares. The bank has 13 branches and is managed by a president, an advisory council consisting of the heads of the branches, and a board of supervision composed of representatives from each union. The president is selected by the board from among the members of the council. The branches have advisory councils of their own and all business with the local associations is done through them. Formerly the Central Agricultural Loan Bank dealt only with credit societies and as a result a number of provincial banks were formed for the other societies, but now its facilities are open to any kind of association in the system. Dividends in excess of four per cent are never declared, since the bank is not run for profit.

The General Federation of the Rural Cooperative Societies of Germany was formed in 1877 for the purpose of protecting the interests of the societies, giving advice and carrying on the work of propaganda and organization. It owns a library and press, and since the firm of Raiffeisen, Fassbender and Company went out of existence it has printed and published the bimonthly paper, the almanac, annual reports, blank forms and pamphlets of useful agricultural information. It trains employees and has obtained contracts with insurance companies for cheap rates for farmers. Formerly it received state aid, but now its sources of income are the sale of its printing and literature, commissions on insurance and contributions from adherents and from the Central Agricultural Loan Bank. Under the Federation are groups of local societies called unions. The number of unions is 13 and the larger are divided into sub-unions.

The unions are in reality provincial federations and they have assumed great importance since the law of 1889 gave them the right to appoint official auditors for their local societies. The officers are usually identical with the officers of the branches of the Central Agricultural Loan Bank and are the active and prominent members through whom the

Federation does most of its work for strengthening and extending the system. Originally the unions were simply parts of the Federation but in 1905 they all became independent bodies with their own charters or articles of agreement.

Many cooperative societies for production, distribution and other purposes sprang up in Germany along Raiffeisen's lines during his lifetime but he did not pay much attention to them. His heart was with the credit associations alone. He wished each to embrace all the activities of its members; to serve as their medium for the purchase of agricultural supplies and equipment and for the sale of farm produce; and to be their meeting place for settling disputes, exchanging views and experiences and gathering useful information, and their social center for improving their intellectual, moral and material welfare, for helping their weak brethren, strengthening the love of home and country among themselves, and radiating a compelling influence for the general good upon the entire rural population within the small area of its operations. This comprehensive and humanitarian plan, devised by the founder, is still followed in Germany, and the last model articles of agreement for credit societies (1910) distinctly state that they must rest upon a Christian and patriotic basis.

It is quite easy, of course, to get the poor and those who want to borrow to join a society of such scope and spirit, but what inducement is there for the prosperous and well-to-do to become members? Why should an owner of a quarter section of fertile land, in no need of a loan, pool fortunes with an ignorant tiller of a five-acre patch encumbered with debt? Yet Raiffeisen always urged the big and the little, the rich and the poor, to come together, and today the thousands of German societies of his type contain all these elements and are usually managed as an act of grace by the members who are financially the stronger. How has this marvel been accomplished? The reason is plain. The societies, in addition to their splendid credit and banking facilities created by provincial and national interrelations, furnish cheap and convenient means of trade in agricultural

necessities, and are so inherently safe and sound because of their organic arrangement that never once has a local society occasioned loss to a depositor or creditor nor a call for unequal assessment on members to meet its obligations. This proof of the practical lack of risk and the suasion exerted by elevating the moral tone, educating the business sense, and binding in complete solidarity the social and material interests of the farmers of the neighborhood, attract and even force all classes, without regard to their financial standing, to seek admittance to the societies

The poor are not afraid of the rich for only one vote is allowed a member. Indeed, since the right to withdraw may be exercised on a few weeks' notice, the poor are inclined to be conservative and to yield the control to the rich, because if the latter should desert in numbers the society might be dissolved and the poor forfeit to the public whatever they had paid into the reserves. The unlimited liability, which still remains the corner-stone of the Raiffeisen system, is harder on the poor than on the rich, as assessments for losses are made share and share alike and might completely wipe out a small estate without noticeably diminishing a large one. Hence unlimited liability is safer for the rich than for the poor in the society, but it gives rise to no fear or anxiety in agricultural regions, where alone, indeed, it seems possible to be practised, because there the risk is so remote as to be merely theoretical.

The members of a Raiffeisen society, it must be remembered, are all neighbors, carefully selected on account of their good characters, industrious habits and friendly dispositions. The shiftless and quarrelsome are barred. All have some visible and tangible assets, their farms, or, if they be only tenants, livestock and equipment, so that if one of them receives a loan, he will likely be able to repay it, because the officers who are intimately acquainted with him know beforehand whether he is good for the amount and besides they see that he uses the loan for the specified productive purpose for which it was granted. But if their judgment should be wrong or the crop or venture fail, there are many

expedients to which the society may resort before calling on the members' unlimited liability. In the first place, if the property of the borrower brings nothing on execution, the society may sue his indorsers. Then, if by any chance a deficiency remains, it may raise the interest rate on other loans to cover the loss, since they are all recallable on a few weeks' notice, or, it may charge a little more for its banking services or raise the selling price of supplies. This would not materially affect members, because supplies are bought and sold at wholesale and services are rendered without charge or at a lower figure than that of non-cooperative institutions. Thus step after step may be taken before the unlimited liability is reached, and it is protected from creditors until the society has exhausted all its profits and means of increasing its profits and all its capital, reserve and foundation fund. Such an eventuality is highly improbable, because speculation is forbidden and offers no temptation to officials who cannot receive any gain and must suffer along with the other members for any losses resulting from a risky transaction, while if mismanagement should appear it could not long continue, since the members have the right of summary dismissal of offending officials and also of dissolving the society if they find it in failing circumstances and winding up its affairs.

The Raiffeisen society is a perfect organ for facilitating the flow of capital and cheapening credit for agriculture. The record of the thousands of these little banks in Germany of never having lost a cent belonging to the millions of people who have dealt with them during the past 50 years is unparalleled in the history of finance. It is so marvelous as to be unbelievable by those not acquainted with the facts. The hundreds of millions of dollars which they put in circulation during that period rescued the German farmers from usury, poverty and apathetic despair, made them their own bankers, merchants and instructors, raised them in the scale of life, and put them in the way of helping themselves and their neighbors. Raiffeisen made the dollar beneficent without interfering with its usefulness. He was the first man

to understand the credit value of farmers and to utilize it for their financial needs. The Schulze-Dehltzsch credit societies require their large shares to be paid in small weekly or monthly instalments in order to enforce saving and they strengthen the habit of thrift thus formed by arousing a cupidity for big dividends; consequently the interest rate on their loans is usually as high as that charged by ordinary banks. But Raiffeisen would not tolerate dividends because they benefited the more prosperous members at the expense of the borrowers and interfered with the development of a true spirit of mutuality within the society. As a result of this absence of the spirit of lucre, fraternity reigns supreme in his societies and the interest rate on loans is often as low as that on the safest kind of securities. Raiffeisen was opposed to a capital stock because he thought that the best place for farmers to put their savings was in the land, and he considered that periodical payments on long-time loans was as an effective way to encourage thrift as periodical payments on shares.

Raiffeisen was also the first man to realize that coöperation could not attain its full usefulness for agriculture without combination, and that there had to be cooperation among the cooperative societies as close as that among the individual members. For this reason he established his branch banks and Central Agricultural Loan Bank, his unions and sub-unions, and over all the Federation, to weld the local units together in a great national economic force for their mutual protection and assistance, preserve them in their harmonious relations, and help the farmers to live and work according to the principles which he laid down of brotherly love and Christian charity. The firm belief that Raiffeisen had in the lasting value of these principles and his other ideas, and his intention to keep them alive forever are shown by his creation of indivisible reserves, which having accumulated in the societies for nearly two generations, now amount to some millions of dollars and serve as a permanent fund donated to the agricultural public for carrying on and perpetuating his system in Germany.

CHAPTER XXIII

GERMAN SYSTEMS AT PRESENT

Distributive Societies of William Haas—Imperial Federation of Agricultural Cooperative Societies and the Raiffeisen General Federation.—Unions, or Local Cooperative Associations—State Aid.—Income and Audit of the Unions—Examples of Failures among Societies and Banks—Cooperative Banks for Agricultural Systems.—Prussian Central Cooperative Bank. Small Credit Societies at Base of Whole System.—Their Organization, Rules, and Liabilities.—Statistics

THE cooperative societies attached to the federations of Schulze-Delitzsch and Raiffeisen were not the only ones established in Germany during their lives. The work of these founders of cooperation created a movement which advanced beyond their personal control, and in a number of the German states their principles were used or adapted for forming many societies for various cooperative purposes, which had been organized in groups by imitators who did not recognize their leadership.

The most prominent of these new men was William Haas, who was born at Darmstadt in 1839 and for 40 years played an important part in agricultural cooperation before his death in 1913. Haas' activities began in 1872 by founding an agricultural distributive society at Friedberg in Hesse. The distributive, next to the credit, societies were the earliest form which cooperation assumed in Germany and they had a rapid development in Hesse. Their objects were to trade in cattle and to make collective purchases of feed, fertilizer and seed for sale to members, but they were handicapped by the fact that each acted independently of the others. Haas conceived the plan of combining all the societies in the Grand Duchy

into a union. This was done in 1873 and Haas was elected president. The union opened its doors to some other Hessian agricultural cooperative societies in 1890, and at the same time, ceasing to act as the business agent of its adherents, it formed a central society for collective purchase and limited its own functions to auditing, inspecting and representing the general interests of the societies. The method adopted in Hesse was followed in adjoining provinces, and in 1883 Haas realized his idea of uniting the provincial unions into an organization which later on took the name of the Imperial Federation of Agricultural Cooperative Societies, with himself as director-general. Thenceforth Haas became the strongest and most conspicuous figure in cooperation in Germany, for Schulze-Delitzsch had died and Raiffeisen was reaching the end of his days.

The societies belonging to the Schulze-Delitzsch federation, although they have many members who are farmers, are all located in cities and have a distinctly urban character. Haas and Raiffeisen were interested in agriculture alone, but Haas opposed the mixing of religion and business and also the centralization which Raiffeisen favored. Moreover, he stood neutral as regards share capital and unlimited liability, and used what seemed to him good of both the Schulze-Delitzsch and Raiffeisen systems wherever it seemed desirable or expedient to do so. During its first five years his Imperial Federation acted only as the center for cooperative purchasing societies and dairies, but after Raiffeisen's death in 1888 it decided to admit credit societies and then a bitter rivalry and struggle for mastery ensued. The Imperial Federation won in 1905 when all the Raiffeisen societies went over to it, retaining, however, their membership in the General Federation for guidance, instruction and the preservation of the principles of their founder. This arrangement proved unsatisfactory and was dissolved on May 30, 1913, hence there are now two systems of agricultural cooperation in Germany, the duality of which often leads to useless duplication of work.

The Imperial Federation has maintained its dominance in

spite of the secession and the great majority of the rural co-operative societies are allied with it. Its headquarters are at Darmstadt, and it embraces the whole of Germany and the German protectorates. Membership is open to all unions of agricultural societies, their central organizations, and individual associations in the protectorates and foreign lands. Its administration is composed of three parts. The first is the director-general and two vice-presidents elected for five years at the annual convention of its adherents, the second is the general committee, composed of the director-general, the managers of the unions, and six representatives of the provincial coöperative banks and trading associations and the national bank and institutions of the Federation, which are empowered to decide upon matters of importance in case of urgency, prepare resolutions and carry out those that are adopted at the annual convention, pass upon the accounts and applications for membership, and fix the budget and the contributions of members; the third is an executive council consisting of the director-general, vice-presidents and seven persons selected from the general committee for five years, whose duties are to give advice to officials, prepare the agenda for the annual convention, examine the accounts, draw up the annual report and all resolutions and proposals to be submitted to the general committee, and decide on the expulsion of adhering societies. In addition there are various special committees formed for particular groups of societies.

Besides holding the annual convention, the activities of the Imperial Federation include the publishing of a yearbook, an official organ known as the *Agricultural Cooperative Press*, issued twice a month for free distribution to its adherents, and a monthly bulletin which is sent to all newspapers and periodicals on its exchange list. It publishes also books and pamphlets on agricultural and coöperative subjects. It conducts a school to train young men to be officers in the coöperative associations and strives to secure positions for them after graduation. It holds lecture courses and awards prizes to stimulate efficiency, gives liberal salaries, grants pensions to widows and orphans of officers, and owns two hotels opened

during the summer for officers and their families at reasonable rates. It retains a lawyer and a corps of experts for constructing granaries and electrical plants and for purchasing chemical fertilizers, and has made contracts for preferential rates of insurance against loss or theft of money and valuables sent by mail; and finally it audits the accounts of the unions and institutions directly belonging to it.

The General Federation has its headquarters at Berlin. Membership is open to auditing unions, credit societies and societies for other cooperative purposes, central banks and central associations which have been organized upon and follow the principles of Raiffeisen. Its administration consists of a director-general and a deputy; a general committee composed of these officials, the managers of the unions, and the directors of the Central Agricultural Loan Bank; and a board of supervision identical with the board of supervision of that bank. Its activities are similar to those of the Imperial Federation and it has all the objects and purposes of the latter, with the addition that it strives to promote the moral, intellectual and material welfare of farmers by encouraging the practice of Christianity.

Since the enactment of the law of 1889 giving to the unions the power to act as official auditors, and especially since the decentralization of the systems which was carried into complete effect in 1905, the unions or groups of local cooperative associations have become the most important factors in the two rural federations for extending cooperation and coordinating the local societies into systems. The union was the first form of combination. The federations, in fact, started as unions and attained their present position by enlarging their scope and areas. The unions are organized by provinces in Prussia and generally by states in the rest of Germany, and they comprise over 92 per cent of all the local societies. There are some unions organized for special classes of societies, such as dairy associations. Formerly most of the unions did collective buying and selling for members but now all except two have abandoned this business and serve in their respective areas as the federations serve through-

out the nation. Three unions in Wurttemberg, Baden and Treves are so large as to rival the federations, and they have refused to attach themselves to either of the systems. The largest union in a federation is that of Bavaria, with 2,814 societies, and the smallest is that of Alsace-Lorraine, with 23 societies. Between these extremes the number varies from 38 up to 1,417, with an average of 500. The sub-unions have ten to thirty societies. The administration of the union is the triple arrangement familiar in all cooperative organizations, and consists of an executive head and deputies, a committee of management, and a board of directors or supervisors, elected at an annual meeting of the adhering societies, in which each society has only one vote. Thus the union has its own officers, funds and sources of income; this assures its independence and the complete decentralization which Haas fought for so long.

The older unions were chartered by their own provinces or states but the newer ones were generally organized under the Imperial laws for non-profit-making associations. Nearly every province gives state aid of some sort. Alsace-Lorraine grants \$1,342 to the unions annually and has opened an account with them for \$338,000 at four per cent. In Brandenburg the union gets \$1,520 a year. In Baden the unions receive \$4,563 annually, while the local societies are allowed a drawing account up to \$507,000 at three per cent and public moneys are deposited with the credit societies. In Bavaria nearly \$169,000 was given for rural cooperation between 1897 and 1904, and since the latter date the annual allowance has been maintained. East Prussia gives annually \$810; Hanover, \$1,352; Hesse, \$1,690; Hesse-Cassel, \$1,204; Hesse-Nassau, \$845; Posen, \$2,535; the Rhine Province, \$1,521; Prussian Saxony, \$5,427; Silesia, \$2,366 at least; Schleswig-Holstein and Westphalia, \$1,521; West Prussia, \$400; and Saxony, \$4,056; while Westphalia pays the salary of the managing director of the union. Small sums ranging from \$12 to \$50 also are given to new local societies by Brandenburg, East Prussia, Hanover, Hesse-Cassel, Pomerania, Posen, West Prussia and Wurttemberg. Some of the

provinces pay part of the cost of training cooperative officers.

The state donations enumerated comprise loans or the extension of credit at low interest rates to the banks and direct grants of money for education, propaganda and organization work to the unions. They do not include, however, all the state aid given in Germany to cooperation. Other state appropriations have been made, while the chambers of agriculture have been exceedingly liberal and active in its behalf. These are semi-public bodies which Prussia and other German states have required to be established by law. Their object is the care of all matters pertaining to forestry and agriculture, the improvement of the technical and economic education of the farmers, and the advancement of cooperation. Money for the expenses and projects of the chambers of agriculture is raised by taxing farms within their jurisdiction up to an amount not exceeding one-half of one per cent of the regular land tax. Some provinces also make special appropriations for them. Membership is open, among others, to resident persons making their living by farming and to representatives of cooperative associations. Members must be elected by the county councils and hold office for six years. The number of members varies from 32 to 124 for each chamber. The German Council of Agriculture, composed of 75 delegates from the chambers of agriculture, serves as the chief adviser of the Government on all agricultural affairs.

Generally speaking, state aid is favored by the rural and opposed by the urban societies. It is not extended as much as formerly but is still considerable, and the aggregate of the sums granted since Germany changed from a hostile to a friendly attitude towards cooperation is enormous. Although the first cooperative convention called by Schulze-Delitzsch in 1859 was not allowed to be held in Saxony, yet in 1865 Prussia appointed a commission to devise ways and means for promoting cooperation among factory workers. Some years later the King of Prussia gave personal gifts to Raiffeisen and provided also for establishing cooperative societies among striking Silesian weavers to prevent them from drifting into socialism. Since 1895 Prussia has advanced hundreds of

thousands of dollars to its central coöperative banking institution and about \$1,650,000 to cooperative granaries and cattle-selling societies. During the last 20 years the German Government has had a marked predilection for agricultural cooperation and has encouraged its development through ministers of the Imperial Cabinet, provincial governors, local officials, the chambers of agriculture, and public school teachers.

But state aid and governmental encouragement have never been more than partial and incidental means of support. The chief source of income of the unions is contributions from the local societies and provincial coöperative banks and trading societies and in case of need from the federations. The method of assessment is not uniform. Usually, however, annual dues are charged and a percentage of the turnover of business is exacted, while each society must pay the actual expense incurred or stated amounts for all services rendered it and the cost or fixed price of articles which it is bound to buy from the union, such as account books, textbooks, models, forms, office supplies, periodicals and publications. Most of the unions receive also from the trading societies their net profits remaining after a moderate dividend has been paid on shares and a levy set aside for the reserve. In this way the unions obtain all the money they need for themselves and for maintaining the federations. It must be borne in mind that, with several exceptions, the unions generally have nothing to do whatever with financial or business transactions but confine their activities to propaganda, educational and organization work, safeguarding and furthering the general interests of the societies and their systems, and auditing the societies at regular intervals. The latter has become the most important duty of the unions since the law of 1889 requires all registered coöperative societies to submit to an audit.

The compulsory outside audit, an audit by someone neither an officer nor member of the society, has been the greatest factor in standardizing business methods, enforcing conformity to statutory and conventional requirements, and giving strength and public confidence to cooperation in Ger-

many. Schulze-Delitzsch introduced it before 1868, Raiffeisen adopted it in 1880, and Haas had insisted upon it from the start, so it was self-imposed before the law made it obligatory. The Government debated a long time whether or not to take the audit upon itself, but realizing the difficulties and expense of examining by public employees the petty and voluminous affairs of thousands of small societies, it decided to leave the auditing to their unions, or if they were attached to no union, to persons appointed by the courts. The law provides that this audit must be made every second year, and must cover an inspection of the books, accounts, cash, securities and goods. Nearly all the unions make it annually, either upon notice or as a surprise, and besides examining the assets and liabilities minutely, they investigate the acts and capacity of officers, see whether the laws and by-laws have been observed, inspect and supervise the entire situation of the local societies, and make what recommendations they deem fit. The only way in which they can enforce these recommendations, however, is by expelling the delinquent society from the union or by suggesting that the banks refuse it credit.

In January, 1913, the Imperial Federation included 41 unions with 71 provincial associations and 20,780 local societies, of which 13,736 were credit societies. The total number of individual members exceeded 2,000,000. It had also four central institutions and the German Wine Growers' Society of Palestine. But in May of that year, the General Federation seceded and took away its 13 unions with their 4,626 local credit societies, seven provincial trading associations and eight provincial banks, and its Central Agricultural Loan Bank, with approximately 450,000 individual members. The central institutions remaining were the Imperial Cooperative Bank, a joint-stock company; the Cattle Selling Society, a limited-liability association; and the Potash Purchasing Company, also a limited-liability concern. The shares in these institutions were owned mainly by the provincial associations. All these associations, whether for banking or business, are likewise organized on the limited-liability

plan, and their shares are owned by the local societies, some of which have limited and others unlimited liability. All the provincial associations of the Raiffeisen federation have been organized in the same way and its Central Agricultural Loan Bank is a joint-stock company. Hence neither of the systems has a pure form of cooperative organization at the top, while unlimited liability does not appear anywhere except among the basic units. The farmers individually have no ownership or power of control in this great superstructure which has been erected upon them and with their money, while some of the provincial associations and central institutions are so large that the local societies, which have supplied the funds for their capital, take no part or interest in their management. While the officers have been in the main honest, faithful and capable, instances of bad judgment, incompetence and even corruption have occurred with serious consequences.

The grain-selling associations of Strassburg failed in 1904, the Central Society of German Wine Growers in 1905, and the Bavarian Hop Growers' Society in 1909. The Co-operative Tobacco Sales Society of the Pfalz and the grain-selling societies of Ludwigshafen met with financial reverses in 1911. These were all very large concerns formed by shares subscribed by the Raiffeisen local societies. The losses reached into the millions. In fact, the Central Agricultural Loan Bank and many local credit societies faced ruin because of the inability of the sales associations to pay back money which had been borrowed, and were saved only by the bonding of the debt to the Central Agricultural Loan Bank and in one case through the assistance of the state. The Central Agricultural Loan Bank asked each of the local credit societies to pay \$750 to be returned in instalments for 15 years. A few of the Bavarian and Posen societies refused, but 3,000 societies complied with the request and thus the matter was adjusted.

Bad records have been made also within the Imperial Federation. The loan and savings society of the peasants and tradespeople of Nieder-Modau, near Darmstadt, was declared

insolvent in December, 1911. Its deficit amounted to around \$400,000. Most of the members were poor, with assets ranging from \$500 down to nothing. One, however, was worth \$50,000 and he had to turn all of this fortune over to the creditors. His only hope of recovery lies in the notes of equal amount which the court compelled the other members to execute in his favor. The causes of this failure were excessive ambition and a too extensive territory. Unlimited liability is safe only where operations are restricted to a very limited area. The Nieder-Mosau credit society attracted deposits from all over the province by offering high interest rates, and more than \$750,000 poured in within a few months. This amount was far in excess of the needs of members, and the bank made loans to outsiders. Some of the money was invested in first and second mortgages on building lots and in speculative ventures in urban real estate. After the crash the investigation showed that the managers, directors and supervisors had been remiss in their duties and that the funds had been used in speculation. One official was sentenced and imprisoned for forgery.

In March, 1913, the Central Agricultural Coöperative Bank of the union at Darmstadt had to undergo liquidation, owing to the locking up of \$2,125,000 in the Cooperative Bank of Frankfurt-on-the-Main and to the default of \$2,250,000 advanced to the Administration and Sales Cooperative Society. The latter association was formed a few years ago to administer and sell the real estate in which various societies had unwisely invested their deposits and surpluses for which they had no immediate use. The Frankfurt-on-the-Main bank was founded in 1902 to act as a central institution for a number of union banks and purchasing associations. Deviating from true banking methods, it contracted an alliance with a mismanaged land mortgage company, was tempted by the chance of making big profits into risky speculations in land and mines, and thus went to the wall. A panic ensued among the adhering members of the Central Agricultural Cooperative Bank of Darmstadt when they learned of its connections with these bankrupt concerns,

and they began to withdraw deposits and accounts and cancel their memberships, but too late to avoid the consequences of the failure. Their losses exceeded \$2,750,000, while other societies have become so involved with them that a dangerous crisis has arisen in the agricultural cooperative credit societies of the Grand Duchy of Hesse, due to the fact that several of the banks grew large too rapidly, became overloaded with idle funds and got tangled up with real-estate transactions.

The recent disasters have had a very bad moral as well as material effect and illustrate the danger of pyramiding a large institution upon underlying societies. Nevertheless, the German agricultural coöperative systems have been created by thus building provincial or regional and national organizations upon the local units, and they have been able to withstand these severe shocks because they are not artificial but with a few exceptions are the result of slow, cumulative growth under leaders who have been self-denying, honest and public-spirited. The experience in Germany, however, has led to the belief that if agricultural cooperative systems must have national financial institutions, they should not be banking organizations to handle funds but rather federal boards to direct and regulate their flow. This was Schulze-Delitzsch's original plan, as shown by the bureau of correspondence and exchange which he established.

The mainstay and base of these systems are their banks. In the Raiffeisen federation are the Central Agricultural Loan Bank, a banking and trading concern with 12 branches, the shares of which are owned by the local credit societies, and eight provincial banks formed for trading societies. The Imperial Federation has the Imperial Coöperative Bank, the shares of which are owned by provincial trading associations, and 36 provincial banks for its local societies. Of the three independent groups of rural societies, Württemberg and Treves have their own provincial banks, while Baden has arranged with a mortgage company to act as its banker. The provincial banks are usually called union or central banks; names which describe them more accurately because the banks

are always attached to unions while their area of operations is not everywhere coterminous with political divisions. The provincial, union or central banks are all organized as coöperative associations with limited liability and have the customary committees of management and boards of supervision. Membership in a bank is open to all registered coöperative societies irrespective of kind or purpose belonging to its system within its area, to its own officers and resident persons, such as wealthy farmers or large landowners, although they may have no need for loans, but they are usually very few; and to benevolent institutions, chambers of agriculture and agricultural associations. The average number of members in a union bank is 500. The value of the share runs from about \$2 50 up to \$360, and it is made as large as possible so as to increase the capital. In some cases the share may be paid in fixed instalments extending over two years but usually it must be paid in full upon subscription. A member may hold a number of shares but according to law a new share may not be taken out until shares previously subscribed for have been paid up. The liability assumed is some multiple of the face value of the share. As a rule it is made high when the share is small in order to strengthen the credit standing of the bank, but the tendency is to make it ten times the value of the share. Whenever the debts of a union bank exceed one-fourth the aggregate liability of members, the law requires it to be placed in bankruptcy.

The working capital of the central or union banks consists of the amounts paid in on shares, deposits from all persons and their credit at their national banks. In accordance with the usual cooperative rule the shareholding members must transact all their banking business through the bank and employ its services for buying stocks and bonds for investment. An adhering society's credit is based on the number of shares held or paid for. This is called the normal credit and the society is allowed to draw on the bank up to the maximum as a matter of course without security. If the society needs credit above the normal limit, the application must be passed on by the board of supervision and security may be exacted.

In the branches of the Raiffeisen Central Agricultural Loan Bank a different method is pursued. The local societies, it will be remembered, are directly connected with it and are all of the unlimited-liability type. The local societies send to the branches every year an official statement showing the value of the collective assets of individual members and from these statements the bank determines the extent of the credit which may be accorded to the society. In states where there is a property tax, ten per cent of the official value of the members' combined property may be allowed. Where there is no property tax, five per cent of the value as determined by the society's committee of management is the limit. The local societies use their credit mainly for supplying their individual members with the small sums they require for planting and marketing their crops and this is why credit is extended so much on current account. But the central banks have of course the power of granting long-term loans for large definite amounts, and many of them accommodate their cooperative associations in this way for building dairies, warehouses, electric plants, and for financing various projects. It is the losses and the permanent sinking of their funds through this part of the business which have frequently got them into trouble. The union banks pay from 3.5 to 4 per cent on deposits and charge the local societies from 4.5 to 5 per cent for loans and credit, plus a commission of about one-tenth of one per cent.

The business done is enormous. The total turnover in 1911 for 34 central or union banks was \$1,489,770,200, an average of about \$43,816,918 each, and it was nearly all done upon deposits of affiliated societies. These reached a total of \$204,145,440. The capital and reserves of each bank average about \$224,467.20, and on these funds all the banks earned profits, the average being 6.6 per cent. Dividends ranging from 3.3 to 5 per cent were declared and the balance of the profits was used largely for increasing the reserves. The national banks of the systems require the union banks to do business with them exclusively. All outside dealings except where absolutely necessary are barred by contract.

The turnover of the Imperial Bank in 1911 was \$146,404,800, of the Central Agricultural Loan Bank in 1912, \$297,462,480. In 1912 the 4,626 members of this latter bank owned 10,000 shares on which \$2,298,480 had been paid up in cash. The dividend was 3 5 per cent. The interest rate on deposits fluctuated between 3 5 and 4 4 per cent, and on advances between 4 4 and 4 75 per cent, to which was added one-tenth of one per cent for commissions.

As already pointed out, most German states give financial assistance to the unions and their banks, but Prussia, the birthplace of cooperation on the Continent and the largest province of the Empire, has far surpassed all others in this respect. In 1895 it created the Prussian Central Coöperative Bank at Berlin. At that time coöperation, although encouraged by the King, had made progress only in small isolated areas. The coordination of the local societies into the present systems was in evolution. The Central Agricultural Loan Bank had not yet attained importance. Commercial banks were ignorant of the principles of cooperative credit and declined to consider as a practical security the collective guaranty of persons whom they knew to be individually weak; moreover they had all the opportunity they desired for the profitable employment of their funds in the rapidly expanding trade and commerce. Thus the money markets were closed to the coöperative societies and they lacked the cash to make necessary loans to members and to meet withdrawals of deposits during the busy seasons. It was to relieve this situation, permanently to remove the cause of the trouble and to encourage the development of coöperation that the Kingdom of Prussia decided to act. The express design of the Prussian Central Coöperative Bank was to help the middle classes in town and country by the promotion of cooperative credit among them. It is a pure governmental institution and its capital stock of \$18,000,000 was granted by the Kingdom. The organic act allows union coöperative banks to participate but so far they have contributed only \$360,000. The bank is managed by a president and four directors appointed for life by the King, and these with some

200 other officials are public employees. An advisory committee of 30, chosen from the more prominent members of cooperative associations, serves as a medium of communication with the latter but it has nothing to do with the management. The Bank is supervised by the Minister of Finance who with the Minister of Agriculture directs its policy, and its accounts are examined by public auditors whose report must be submitted annually to Parliament for action. Although created for Prussia alone, the Bank eventually tried to set itself up as the financial head of cooperation throughout the Empire by attaching to itself the national banks of the systems, both of which are located within the Kingdom. It cannot deal directly with local societies. Its charter allows it to reach them only through the union, central and other large banks of the systems. In addition to the coöperative business for which it was especially founded, it may grant loans to the landschafts, public land banks and public savings banks, buy and sell securities on commission and receive deposits. The Bank determines the credit value of a cooperative association by the method employed by the union banks. For a cooperative joint-stock company, it calculates the credit value upon the net assets as set forth in its annual statement. But the usual extent of credit allowed the cooperative customer is ten times its paid-up capital and reserves, with an extreme limit of \$1,200,000. About 40 per cent of the credit actually extended is on current account and the rest by discounting bills of exchange. The Bank does not lend on mortgage. In 1912 its capital stood at \$18,240,000, and its reserve at \$2,040,000; its total turnover of business was \$4,080,000,000, and its profits were \$720,000. One-fifth of the profits went into the reserves as required by law and a 3.3 per cent dividend was declared. It accords a preferential rate to customers who agree to deal with it exclusively. The average rates for 1911 were 3 and 3.5 per cent for balances and loans on current account, 4.09 per cent on bills, and 5.50 per cent on collateral security, and they generally follow those of the National Bank of the Empire.

The position of the Prussian Central Cooperative Bank

is not as strong with cooperation as formerly. In 1905 the Central Agricultural Loan Bank of the Raiffeisen federation joined it, being forced thereto by heavy losses and the increasing number of societies whose needs it was unable to supply. This relation was dissolved in 1913 because the Prussian Cooperative Central Bank tried to prevent the Loan Bank from dealing directly with the local societies and thus compel it completely to change its organization and business methods. Up to 1898 the Imperial Federation was friendly with the Prussian Central Cooperative Bank, but in that year violent objections were raised to its credit valuations and interest rates, and as an outcome the Imperial Cooperative Bank was founded in 1902. However, nearly all the union banks of the Imperial Federation are now allied with the Prussian Central Bank. The Schulze-Delitzsch federation opposes it in principle because of the state aid it enjoys, but there are more vital reasons for the ill-will which it has engendered. The Prussian Central Cooperative Bank is inclined to treat the head institutions of the federations as rivals and wishes to abolish them altogether, while they in their turn resent its forcing of contracts from the union banks so as to compel them to deal exclusively with it. These head institutions consider this as an aggression upon their rights. Moreover, they accuse its management of being bureaucratic and they denounce its accumulation of a big reserve as diverting money from the farmers. Above all they inveigh against this officially directed public institution as a device of the state to place the entire cooperative system under the control of the Government. Thus the Prussian Central Cooperative Bank, although created with the best of intentions, has become the cause of jealousies and dissensions in German cooperation, exemplifying the troubles invariably encountered by the state in aiding a movement which rests upon self-help and thrives best by private initiative. Nevertheless, the Bank continues to grow in spite of its critics and enemies. In 1913 it had for customers 52 union banks, of which 21 were rural, comprising 10,292 cooperative societies and 1,090,000 individual members. The 21 urban pro-

vincial banks had 622 cooperative societies connected with them, with 194,000 individual members. It did business also with eight landschafts, six public land banks, 917 public savings banks, and 795 other concerns and persons.

In brief, then, the rural cooperative organization of Germany is this. The local credit societies and societies for other cooperative purposes are grouped, by provinces in Prussia and by states in the rest of the Empire, into unions of which the majority belong to the Imperial Federation and the minority to the Raiffeisen General Federation, while a few are independent. The three unions of Wurttemberg, Baden and Treves act as their own federations. Except in the Raiffeisen federation the unions have formed for and out of the local societies thus grouped, union banks, union associations for collective buying of farm supplies and equipment and collective selling of farm products of the individual members, and in some cases cooperative creameries, wine cellars, electric light and power plants, and other cooperative concerns. The Baden union uses an outside mortgage company as its bank. The regional or union institutions have formed national bodies, which extend their operations over the entire country, for the purchase and sale in bulk of machinery and articles obtained first hand from the manufacturers. The credit societies of the Raiffeisen federation take care not only of the credit needs of their members but also buy and sell equipment, supplies and sometimes the products of their individual members. All of them belong to the Central Agricultural Loan Bank. Societies not having credit purposes cannot belong to this bank. Originally they could not deal with it, so eight of the groups in the Raiffeisen federation formed union banks of their own. Now, however, the Central Agricultural Loan Bank accords its banking facilities to all societies without regard to their purpose. Furthermore it is closing out its trading business and turning it over to union or regional associations, of which seven have already been formed, and it plans eventually to restrict its branches to banking alone and have them serve as the financial centers of the unions.

Topping this elaborate organization is the Prussian Central Cooperative Bank, founded, financed and managed by the state and offering its services to the banks of all the unions and federations that will accept its terms and conditions. Since Prussia embraces over 64 per cent of the area and 66 per cent of the population of Germany, this bank dominates the cooperative organization and has become the chief financial head of all except the banks of the Raiffeisen federation, which has severed relations with it. The Prussian Central Cooperative Bank is inspected and supervised by the Prussian Ministers of Finance and Agriculture and by Parliament. The other national banks and associations and the union banks and associations are audited and supervised by the federations, and the local societies by the unions. In this way, over two millions of the ten million German farmers are leagued in mutual support through which they exert a tremendous influence in reducing interest rates and the cost of production, manufacture and marketing of agricultural products and thereby do infinite good for themselves and consumers. But at the base of the entire organization are the credit societies, which are individually so small that vast numbers transact their business in the country schools or churches, or in rooms in the village homes or farmhouses of their officials.

These local units, which for nearly two generations have been collecting the earnings and savings of members and non-members and utilizing them for productive agricultural purposes in their immediate neighborhoods and for creating great interlocked financial and commercial systems for helping one another in all parts of the Empire, may be formed and dissolved almost at will and without expense under the German law. This law is not an intricate code but is embodied in one simple statute enacted in 1889 which applies to all kinds of cooperative associations alike.

By this law seven persons may form a coöperative association by filing articles of agreement with the recorder of the district court, and when so registered, it may own stock in or join another association or cooperative corporation. This

enables a weak fagot to become a fasces hard to break, as the European saying is, which serves as a supporting beam or stanchion in the great systems which have been created

Share capital is required. The number and size of the shares, however, is not prescribed but each member must hold at least one and pay in ten per cent of its value upon subscription. Dividends may be forbidden, while the articles of agreement may declare that even the assets shall not be distributed among the members upon dissolution. This provision was inserted to favor the Raiffeisen societies, which can thus live up to their principles by making the size of shares merely nominal and writing all profits to the reserves. Each society must create a reserve, and must state in its articles what portion of the profits shall be annually set aside for it and the minimum at which it shall be maintained. Members have no interest in the reserve, which is indivisible.

A society may expel a member for losing his civil rights, for joining another society, or for changing his residence, and the articles of agreement may of course assign other reasons for expulsion and lay down rules for admission. If retirement or expulsion occur, the motive or cause must be entered on the register at the district court. This register must always be kept up to date with the record of the members who are admitted as well as of those who are retired. Members may retire at the end of the year upon giving previous notice in writing, which the society cannot fix at less than three months or longer than two years. The amount of the shares must be returned within six months after membership ceases. Members cannot transfer shares except upon consent of the society and then only to other members. No matter how many shares a member may own he has but one vote and he cannot hold more than one proxy. Proxies are allowed only for members who are women, corporations and associations. Thus the actual presence of the members at the annual and other meetings is assured, while the wealthy are prevented from gaining the control.

The liability assumed by members may be one of three

kinds Members may be made directly liable without limit to the society and its creditors, or liable without limit to the society for assessments to meet its debts but not to its creditors, or directly liable to both the society and its creditors but only for a fixed sum, which, however, must never be lower than the face value of the shares. Among these three a form of responsibility may be found to suit any group of cooperatives, large or small. An unlimited society is considered in failing circumstances if its assets, including capital and reserves, do not suffice to meet its debts, and a limited society, if the excess of debts over assets is greater than one-fourth of the aggregate liability assumed by members on their shares. A society is dissolved by a three-fourths' vote of the members or by being forced into bankruptcy. The claims of creditors are barred if not presented within two years. A member who pays more than an equitable share has the rights of a creditor against the society for the amount overpaid.

The same kind of administration is provided for all co-operative associations, whether they be banks, trading or other concerns, and this has brought about complete uniformity of organization and business methods. It consists of a committee of management of two, and a board of supervision of three, shareholders, elected at the annual meeting, unless the articles of agreement designate some other number and manner of appointment. They must also fix the term of office. No member may serve simultaneously on both bodies. The committee transacts the actual business; the board must supervise it and keep itself informed regarding the affairs of the society. Salaries may be granted but the board cannot receive compensation based on a percentage of the profits or returns from any transaction. This practically takes away all temptation to speculate or undertake risky ventures. The shareholders must determine at their annual meeting the total amount of money which may be borrowed or received on deposit for the succeeding year and the maximum of credit to be accorded to members. A society may have one or more objects, all of them being indicated in its title, and may do

business with outsiders, but a credit society may extend credit to members only.

The alternative which the law allows a society of having its obligatory biennial audit made by a union instead of by an expert appointed by the court may be exercised only when it belongs to a union which has no financial or commercial objects and whose sole purpose, besides auditing, is the care of the common economic interests of its adherents. The board of supervision must take part in the audit and the report of it must be submitted to the shareholders at their next annual meeting. A certificate stating that the audit has been taken must be forwarded to the union and filed with the recorder of the district court. The annual statements showing the financial condition of the society and the number of members retired, admitted and remaining, together with all matters of importance relating to its affairs, must be published in the official newspapers; thus complete publicity is assured. No special privileges are granted except exemption from certain taxes and the state aid mentioned above.

In 1913 there were 26,576 rural coöperative societies registered under this law in Germany. Of these 98 were central institutions, 16,927 credit societies; 2,409 supply societies; 3,313 dairies; 175 milk-selling stations; and 3,654 societies for various other purposes. Thus the credit societies comprise two-thirds of the whole. They began to appear in numbers in the nineties of the last century, and since then they have been increasing by leaps and bounds. It has been no unusual thing for hundreds of new societies to be formed in a year. They are unevenly distributed geographically. Many parts of the country still lack them, and much remains to be done even in Germany in extending cooperation.

The average membership of each rural society is under 100 and its area of operations contains less than 2,000 souls. The members are drawn from various occupations; among them are found country merchants, artisans, laborers, farm hands, tenants, school teachers, priests, preachers, and local public officials. But about 70 per cent are farmers, and the

majority are heads of families and many own their own land. Over 92 per cent of the societies have imposed unlimited liability. A great many credit societies of the Imperial Federation and independent unions, like the Raiffeisen societies, supply their members with seed, fodder, and fertilizer, sell or rent implements and machines to them, and buy and sell their products. Wherever there is no regular supply association, the credit society invariably takes its place and acts as the commercial center so as to attract members from the better classes by their conveniences and cheap prices for agricultural necessities. In addition to material objects the societies are active in taking care of the general welfare of their members, and some of them have founded libraries, literary clubs, kindergartens, schools and fire brigades, and attend to the sick and the burial of the dead.

The salaries of officers, if any are paid at all, are very small. Half a dollar or a dollar as attendance fee is the usual sum. The chairmanship of the committee of management is the most important office and effort is made to get the most prominent man in the village to take this honorary position. The secretary is sometimes the village school teacher, a local public official or a clerk familiar with keeping accounts. The customary salary for this officer is \$75 to \$200 a year in a society with 80 to 120 members. The office of the local society is generally at his home, and the popular time for transacting business is Sunday after church or in the evenings of holidays. A strong box, a desk, a few chairs and stationery, amounting in value to a couple hundred of dollars, are all the office fixtures and supplies needed for a rural cooperative society.

The credit extended by a local society is expected to be used for some productive or provident purpose and this purpose is entered on the minutes by the committee when the application is granted. But the larger societies do not watch the use closely after once being satisfied with the security given by the borrower. The local societies do not make a practice of according real-estate credit. Nevertheless they have over \$70,000,000 of mortgages on hand, which were

mostly taken on loans granted to members to buy off prior encumbrances bearing high interest rates or for buying out coheirs, as security for the purchase price of farms sold to members by the society itself, or to protect its claims and the property of the borrowing members from outside creditors. The mortgages run five or ten years, and are repayable in yearly instalments

The bulk of the loan business of the local credit societies is usually done on promissory notes or by extending credit on current accounts. Security is always required, the prevailing form being the indorsement of two or more sureties. These loans as a rule run from one year up to six years and are repayable in annual or semi-annual instalments. On current accounts the debtor has to pay back a certain percentage of the overdraft within similar intervals. All societies retain the right of recalling credit upon four weeks' notice.

The funds for carrying on business come from the entrance fees, capital, reserves, deposits, and money borrowed from the regional or union banks or outside lenders upon the collective liability of the members. The entrance fees are rarely over a dollar. In associations having share capital the individual shares range from a quarter of a dollar up to \$1,000 in the large and old-established societies, but the actual paid-up amount in the Imperial Federation is only about \$5 per share, since the societies are content to let members keep the cash because they can draw on their liability at any time to raise necessary funds in case of losses or unexpected needs. The deposits comprise the greatest portion of the working funds, and the societies pay as high interest on deposits as possible in order to attract them from the savings banks and other moneyed institutions in the neighborhood. Good rates can be easily given because the profits of the local credit societies are not consumed in paying large dividends or salaries, while they have the safest kind of investment for funds and can put them to as profitable uses as can any other lenders. Their dividends never exceed three or at the most four per cent, and the cost

of their management rarely goes over \$100 or \$150 a year each.

The statistics of 1911, covering 95 per cent of all rural cooperative credit associations registered under the law, show the strong position and the enormous amount of business done by these little local units. According to these figures the aggregate of the funds owned by the credit associations was \$23,358,374, or \$1,545 per society and \$15.12 per member. Of this aggregate \$7,652,204 was paid-up capital on shares, or \$518 per society and \$5.04 per member; and \$15,710,769 reserves, or \$1,060 per society and \$11.04 per member.

The total amount of funds not their own in the possession of these societies (for 14,729 societies only) was \$543,701,409. Of this amount \$443,899,656 was deposits, \$52,154,124 was in current accounts, and the rest probably borrowed money. The deposits averaged \$30,134 per society and \$307.44 per member.

The total assets were \$572,968,588 or \$38,740 per society, for the same number of societies. The total liabilities were \$569,558,596, or \$38,668 per society.

The loans and overdrafts outstanding at the end of the year amounted to \$446,565,926 (for 14,729 societies only), or \$30,316 per society and \$308 per member.

The loans and advances on current accounts made to members during the year reached \$247,837,766 (for 13,565 societies only), or \$18,264 per society and \$188 per member. Repayments made by borrowing members were \$215,790,436, or \$15,907 per society, and \$163 per member.

The deposits made during the year were \$137,996,121, or \$6,512 per society and \$102 per depositor for the same number of banks.

Five per cent of the rural credit societies are omitted from these statistics, neither do they include any of the people's banks allied to the national or Schulze-Delitzsch Federation. Over 29 per cent of the members of the 952 banks in this Federation in 1911 were farmers or persons engaged in agricultural pursuits, and their savings, earnings and business represent perhaps a corresponding portion of the \$397,-

418,550 of working funds and \$1,107,209,999 of transactions during that year. All these would have to be added to show the true and complete state of affairs. The annual turnover of the banks of the Schulze-Delitzsch Federation is very much greater than that of the banks in the Imperial and General Federations. This is owing to the fact that most of the business of the city banks is done on three-months' paper, while that of the rural credit societies is done on relatively long-time loans or advances.

CHAPTER XXIV

AGRICULTURAL CREDIT IN FRANCE

Early Cooperative Movement in France—Crédit Agricole Mutuel—History of Society—Société du Crédit Agricole—Its Failure Due to Method of Organization—Further Attempts.—Laws of 1867 and 1884.—Associations and Comices—Syndicats Professionnels—Syndical Banks and Connection with Bank of France—Organization and Operation of Banks of the System.—Government Loans.

COOPERATIVE credit for farmers was agitated in France before it was put in practice in any other country. All the earliest French utopians and communists, realizing that agriculture was the greatest source of wealth, suggested ways and means of supplying it with funds or credit based on associated action. Fourier devised for his phalanxes rural counting houses for advancing money to farmers on their crops. Vidal and Pecqueur proposed that the loan of 20 million dollars which they wished the state to make to agriculture should be allotted among associations of farmers. Louis Blanc wanted the farmers in his colonies to be financed by warehouses in which they were to be required to store their produce, while Proudhon proposed to have the notes which his Bank of Exchange was to issue on the security of stored produce to be guaranteed by all its adherents. These vagarious schemes were not cooperative, properly speaking, but they were inspired by, if they did not create, the spirit of mutuality which subsequently became a dominant feature of the industrial and agricultural life of France.

This spirit began to manifest itself in the early part of the last century, and the financing of the working classes who attempted to combine for their mutual protection and

assistance was the first project considered. The Provident Aid Bank was founded at Limoges in 1830, the Fraternal Bank for Small Commerce at Cognac in 1848, the Bonnard Exchange Bank of Marseilles in 1849, and the Mutual Commercial Exchange Bank by grape growers at Montreuil and Vincennes in 1857. The latter institution is called the mother of coöperative credit in France and it served as a model for many others within a few years after its foundation. Beluze started mutual banks for laborers in Paris in 1863. In 1866 there were over 60 of these banks at Paris and in the departments, when Napoleon III founded the Bank for Coöperative Associations with a capital of \$100,000. Leon Say (Minister of Finance, 1872-1882) also founded a bank for cooperatives at Paris, while others were started at Lyon, Lille, Mulhouse, Strasbourg, Colmar, Saint-Etienne and Marseilles.

These banks were in the cities and nearly all of them had disappeared by 1869. Ludovic de Besse, a Capuchin monk, took up the work again in 1878 and by 1886 he had formed 18 banks which he designed primarily for Catholics, but he gloried in having some Jews among them. In 1885 Louis Milcent, with the assistance of Paul Bouvet, a wealthy timber merchant, founded at Poligny, in the assembly district of Jura, a coöperative bank composed entirely of farmers. By 1887 an active movement for cooperative credit was launched under the leadership of Father Ludovic and Eugène Rostand, father of the dramatic poet, joined later by Charles Rayneri, who sent invitations to 20 known societies for a convention held in 1889. About this time also Jules Melne, who has been President of the Chamber of Deputies, Minister of Agriculture, Chairman of the National Council and Prime Minister, began to interest himself in the propagation of coöperative credit. In 1890 Louis Durand, a lawyer at Lyon, was delegated by the Northeastern Union of Agricultural Associations to make an investigation of farm finance; his remarkable book, *Crédit agricole en France et à l'Etranger*, was published in 1891. In 1893 Durand founded two credit societies. The first of these, started in March at Langé with the help of the Abbot Ragu, was the first society of the

Raiffeisen type to appear in France. The other, composed of workmen, was started in April at Bagnères de Bigorre with the help of Mr Soulé and Dussert. Durand immediately organized these two credit societies into the Federation of Farmers' and Workmen's Banks with Unlimited Liability. In July of the same year Charles Rayneri formed a society of the Raiffeisen type at Castellar through the Central Federation of People's Credit which he had organized a few months before. In 1894 a law for rural cooperative banks was placed on the statute book, and by subsequent legislation most of the banks which have been formed under this law have been induced to join the *Crédit Agricole Mutuel*, which is a decentralized system of local and regional cooperative banks, at present fostered by the state, for granting short- and long-term credit both to individual farmers and to agricultural cooperative associations.

The Central Federation of People's Credit and the Federation of Farmers' and Workmen's Banks with Unlimited Liability still exist. The former is neutral as regards politics and religion. The local banks affiliated with it comprise those connected with the People's Bank of Menton, managed by Mr. Rayneri, and those which were formed after the ideas of Mr. Rostand. They depend principally on the savings banks of their neighborhoods for obtaining money to lend to members but sometimes resort to the state for aid. The Federation of Farmers' and Workmen's Banks is almost exclusively Catholic. A few of its local banks are connected with regional banks which receive aid from the state but the majority depend on their own resources or on regional banks which they themselves have created. The total number of banks belonging to these two federations is estimated at between 800 and 1,100, but their members are largely workmen in the cities.

The *Crédit Agricole Mutuel*, on the other hand, is entirely agricultural, and it embraces all the agricultural cooperative banks in France outside of these two federations except 131, 128 of which have 8,612 members. In 1912 the *Crédit Agricole Mutuel* comprised 98 state-aided regional banks and

4,204 local banks or credit societies with 215,695 farmer members. A Bureau of Supervision and Control has been established in the Ministry of Agriculture for the banks which receive aid from the state, all of which are affiliated to the Central Federation of Agricultural Syndicates of France. This body, established for propaganda and organization work, keeps all the regional banks in communication with each other. It publishes a semi-monthly bulletin with statistics of the funds that are idle or needed in each bank, interest rates and other useful information, and encourages mutuality and interdependence in the system.

The *Crédit Agricole Mutuel*, founded about 15 years ago, now covers the entire country. There is at least one regional bank in each of the 86 states and the territory of Belfort into which France is divided. Attached to each regional bank are on an average 42 local banks or credit societies with about 50 members each, whose territory as a rule is confined to a parish or a commune. This vast system, which it is hoped through its decentralization eventually will bring credit facilities to the very doors of all the French farmers, sprang from the movement set on foot by the inquiries propounded in 1826 by the rich banker Casimir Périer, who subsequently became Minister of the Interior. The first result of this movement was the enactment of the law and the establishment in 1852 of the *Crédit Foncier* for land credit, as related in an earlier chapter. But it was soon realized that the organization of land credit was bringing no relief to small farmers and that something else had to be done in order to rescue them from the usurious bondage into which they had fallen. The reports made by Charles Edward Royer in 1844 and Jean-Baptiste Josseau in 1851, at the instance of the Minister of Agriculture, showed that the various countries they had visited contained banks for granting short-term credit as well as banks for long-term credit for agricultural purposes, and the Government again undertook the study of the unsolved problem. In 1854 Napoleon III delegated Léonce de Lavergne to investigate the credit institutions of Great Britain and the work of Schulze-Delitzsch and

Raiffeisen, whose fame though still new was beginning to spread over the borders of Germany. Consular agents also were instructed to make researches in other parts of Europe.

In 1860 a large commission with M. Josseau as secretary was officially assembled to examine the material which had been gathered and to make recommendations. It ignored cooperation and advised the creation of a large central institution with the aid of the state. A law was accordingly enacted in that year by virtue of which the Société du Crédit Agricole was organized in 1861. The Crédit Foncier was compelled to supply the \$4,000,000 of capital, and its president and vice-presidents to act as the officers of this ill-starred concern, long since dissolved. The Government pledged itself to advance a maximum of \$80,000 annually in case profits should not suffice to pay expenses and a dividend of four per cent a year. The objects of the Société du Crédit Agricole were to extend credit to agriculture and allied industries, but no restrictions were imposed against dealing with any class of persons, and it was empowered to discount paper, to make loans on real or personal security, and to issue five-year debentures of \$25 or more against its loans.

In 1870 this great agricultural bank had 500 correspondents whose business with it amounted to \$83,619,000; 17 branches with \$143,121,800 of discounts; and two subsidiary companies, one of which had a capital of \$1,200,000, and the other assets of over \$6,000,000. The capital of the central concern was then \$8,000,000, its deposits \$1,053,400, accounts current \$698,000, secured loans \$13,579,200, and discounts \$247,778,800, while its debentures in circulation exceeded \$18,000,000. But this splendid showing meant very little to agriculture. The farmers could not be induced to deal with it, and owing to the lack of their business, the bank began to engage in speculative enterprises. Among these was the Egyptian affair. By 1876 it had lent to the Government of the Khedive \$33,649,265. This money was obtained from the Crédit Foncier, which in making the advance impaired its capital and exhausted its disposable funds raised by the sale of debentures. The security was Suez

Canal stock and Egyptian obligations of various kinds. In 1876 the Khedive suspended payment and the Société du Crédit Agricole immediately went to pieces. The Crédit Foncier was badly involved in the ruin, but by carefully nursing the assets which were left, it finally wound up the affairs of the bank in 1881 at a net loss of \$1,400,000. From the point of view of agriculture, the Société du Crédit Agricole was doomed from the start because it was an attempt to organize credit by beginning at the top. Such efforts generally have ended in disaster or brought unsatisfactory results.

As soon as the plan of a central institution began to prove a failure, the Government in 1863 resumed the study of short-term agricultural credit with renewed energy, and in 1866 appointed a second commission to reexamine the many projects before it, which kept it at work until the Franco-Prussian war in 1870. The question was taken up again after the restoration of peace and became one of the most important public issues, because the farmers by that time had become so burdened with debt or stagnated from the lack of capital that agriculture was retrograding to the danger of the country's welfare. In 1878 an International Congress on Agriculture was held in the Trocadéro in Paris under the auspices of some of the most notable persons in France and other countries. In 1879 a third commission was appointed and another inquiry abroad made through consular agents, while experts investigated conditions at home. This inquiry resulted in 1881 in recommendations for the amendment of the laws relating to pledges, chattel mortgages, commercial paper and bankruptcy, with the object of eliminating the technicalities which prevented the banks and money lenders from taking the security or discounting the notes and bills of farmers. Debates in the Assembly on these subjects continued until 1898, when a law was enacted which, with amendments in 1906, enabled a farmer to give as security for a loan a mortgage on his live stock, chattels and personal belongings, whether they were left in his own buildings or on his own land or in the possession of a trustee or of any association of which he might be a member. This right, up

to that time denied to farmers, placed them on a footing of equality with merchants and industrial persons as borrowers in financial circles and brought about what the French call the "commercialization of agriculture."

The law of 1860, mentioned above, was the first attempt made in France to solve the problem of short-term credit for farmers. Its basic idea was the creation of a large central bank under the auspices of the state with the aid of public funds. The *Crédit Foncier*, to which the *Société du Crédit Agricole* was annexed, is, it will be remembered, a semi-governmental institution. The farmers were not called upon to contribute anything towards the support of this bank, nor were they given any part in its organization or management. They were expected only to be the customers for the easy credit that it was intended to accord. The disastrous but natural failure of the first state agricultural bank, however, did not swerve the Government from its policy, manifested as far back as 1848, and now successfully accomplished, as will be seen later, of extending public aid to farmers, but it put an end to all plans for the formation of a centralized system of agricultural credit to which the farmers were to be connected simply as beneficiaries.

The miserable collapse of the *Société du Crédit Agricole* was the best lesson France and Europe ever received in agricultural credit, and while it was slow to be appreciated, the effect of the lesson has been all the more permanent and useful. Since then decentralization has been recognized as the true principle, and the systems since formed for independent farmers capable of taking care of themselves have been constructed on the idea of building up from the ground, and creating credit facilities at the very doors of the farm homes. This idea of decentralization had strong advocates from the beginning in France, but its reduction to practice was finally hastened by two other laws which were enacted without any hearing on farm credits and even without any thought that they would influence the solution of that problem. Yet by opening the way for private initiative and associated action, they led to the introduction of cooperation for all agricul-

tural purposes, credit included, and gave to it the special feature of *syndicalism* along the lines of which cooperative credit subsequently developed in France

A brief reference to history is necessary in order to explain the purpose of placing on the statute books these two laws, one of which was enacted in 1867 and the other in 1884. In 1791 the revolutionists, being socialistic in tendency and also in constant dread of political conspiracies, considered all associations and corporations to be inimical to the constitution and declared that none should exist or be formed except by special act. "No citizen of the same civic state or profession," they enacted, "nor builders, tradespeople, laborers or persons of any mystery or art whatsoever, shall when assembled elect presidents, secretaries or treasurers, keep records, pass resolutions, or adopt by-laws in reference to their pretended common interests" The penal code compiled under Napoleon Bonaparte in 1810 retained the substance of this law of the First Republic, but so amended it as to read "No association of more than 20 persons aiming to meet every day or at stated intervals for religious, literary, political or other objects, shall be formed except with consent of the Government and upon conditions imposed by public authority." The law of 1834, enacted on the return of the Bourbons, retained this provision and added that the consent of the Government was always revocable

This restriction prevented all freedom of action. The only way in which a company or association could be formed was to procure a license under a special act or decree. This was usually a lengthy and expensive procedure, while the license was uncertain in its duration even after it had been obtained. Such conditions blocked industrial progress and also made it impossible to form with ease the little societies so necessary for the full play of cooperation. Consequently urgent demands for modernization came from all sides and could not be denied. The law of 1867 abrogated the restriction so far as it related to companies and substituted a general law whereby they are allowed to be formed by any number of persons simply by the filing of articles of agreement and

complying with specified regulations. This law further provided that the capital stock of such companies may be made "susceptible of increase by successive payments of shareholders or by the admission of new shareholders, or of diminishment by the withdrawal in whole or in part of their shares" This provision was inserted on the request of followers of Schulze-Delitzsch, and it was the first time that cooperation was given a legal status in France. But the only kind of a cooperative society allowed thereunder was one with shares of a minimum value of 50 francs (\$10). Thus the statutory recognition was not complete, since the Raiffeisen type of society was excluded, but it was enough for the starting of propaganda, and earnest men who were familiar with what was being done in Germany and across the Alps in upper Italy by Luigi Luzzatti began gradually to prepare the French farmers for the reception of cooperation. In 1893 the minimum for shares was altogether abolished and thus the way was opened for Raiffeisenism.

The second piece of legislation, the law of 1884, applies to associations. It provides that 20 or more persons of the same trade or calling, or trades and callings connected therewith, may freely form an association without being required to obtain a special act or license but simply by filing their articles of agreement with names of the first members and officers with the mayor of the place where it is to be located and with the prefect of the Seine at Paris. The objects of an association under this law are confined to the study, protection and promotion of the common economic interests of members, be they industrial, commercial or agricultural. Such an association is empowered also freely to combine with other associations of the same kind and purposes. The law was intended primarily for trade, commerce and the working classes, whose representatives were chiefly instrumental in securing its passage. The word "agricultural" was inserted as an afterthought just before the last reading to round out the sentence, according to tradition.

But contrary to all expectations this law became useful mainly for agriculture and effected the salvation of the

small farmers. It happened to be enacted at the height of the agricultural crisis which had been precipitated over all Europe by the long continued neglect of agriculture and the competition of American with domestic grown products promoted by cheap oversea transportation. The only hope of the French farmers lay in combining their forces, so that they could buy their supplies at wholesale prices, improve their methods of cultivation by the interchange of useful information, and secure by their united vote tariff laws and other legislation favorable to their interests; and they immediately set about organizing themselves for mutual self-help. Within a year 39 associations were formed under this law and the number grew thereafter as if by magic. Ten years after its enactment there were 1,888 associations with 403,261 members, and in 1911 there were 5,058 associations with 778,189 members, and 555 unions with 2,392 adhering associations.

The associations which came into existence by virtue of the law of 1884 must not be confused with the many agricultural societies, one of which, created by the state of Bretagne for the district of Ille-et-Vilaine, dates back to 1756; nor with the *comices*, or agricultural committees, which, appearing first around 1830 and subsequently regulated by the law of 1851, now number over 1,200. The agricultural societies and *comices* are agronomic groups of men united for holding fairs, awarding prizes and advancing the agricultural interest of their localities. Nor must the farmers' associations be confused with the syndical associations which may be voluntarily formed, or compelled by the state to be formed, by landowners to undertake works of common utility, such as the reclamation of land by drainage, irrigation, etc.

The associations formed under the law of 1884 are called in French *syndicats professionnels*, the last word signifying a trade as well as a profession, vocation or calling. The difference between an association and a *syndicat* in France is that the former has merely a conventional form, while the latter has a statutory form and is an association organized under some law containing the regulations respect-

ing its powers and privileges. French agricultural *syndicats* are counterparts of some of the unions of the agricultural cooperative systems of Germany. A trade union is called a *syndicat* in France.

The law of 1884 was not drafted especially for cooperation. It was designed for all kinds of associations having no object of gain, and its evident intent is that they should not have any financial or business affairs. But it contained loopholes. The clauses allowing such associations to promote the economic interests of members and also to make investments of fees and contributions received from them were taken advantage of to favor agricultural cooperation, and consequently there are now agricultural *syndicats* which act as agents for making collective purchases and sales for members, which buy for and sell to members collectively or individually the supplies they need, which own warehouses for the storage and marketing of members' products, which carry on a retail trade with the public in products bought from members, which publish periodicals, and which do various other things of a commercial and industrial nature, distributing the profits, if any, as rebates to members or keeping or using them for their common good. These broad constructions of the law have given rise to much litigation. The court at Nancy denied to agricultural *syndicats* the rights of cooperative societies, but a new law enacted in 1901 cleared off certain legal difficulties, and under this law about 100 *syndicats* have been formed.

The circular of M. Waldeck-Rousseau, Minister of the Interior, setting forth the views of the administration on the 1884 law at the time of its passage said.

The legislature, imbued with the idea that the association of individuals according to their professional or vocational affinities is less an arm of combat than an instrument of moral, intellectual and material progress, has given to the *syndicats* a civil and legal personality in order to permit them to use their power to the highest degree for doing good. Owing to this complete freedom of action on the one hand, and legal civil personality on the other hand, the *syndicats* are able to unite the necessary

resources for creating and multiplying among other persons useful institutions for help in case of need, libraries, lecture courses and bureaus of information for statistics, investments and salaries, and mutual credit banks and cooperative societies.

The first *syndicat* worked along the lines laid down in this circular. Scarcely a month after the law of 1884 went into effect, an agricultural *syndicat* was formed for Poligny, and in the following year it founded for the farmers affiliated with it, through M. Milcent, the bank mentioned above, with shares and a variable capital under the law of 1867. This is known as the first rural cooperative bank in France, although a *syndicat* founded by Professor Tanviraz at Blois in 1883 attempted credit in an elementary way. Another was formed shortly afterwards at Senlis, and the *syndicats* thenceforth became active in giving a cooperative direction to agricultural credit.

Thus agricultural cooperative credit made its appearance in France through the *syndicats*, and in order to encourage its progress M. Méline proposed that the 1884 law be so amended as to enable *syndicats* to be organized for extending credit directly. This was opposed by persons who wished another central agricultural bank to be organized and guaranteed by the state. France has ever clung to its idea of helping the farmer financially. It was also opposed by those who still wished the *syndicats* to remain merely the agents or instruments for creating, directing and advising cooperative societies without necessarily being cooperative or engaging in business affairs themselves. After four years of debate in the Assembly, the central-bank idea was discarded and the law of 1894 was adopted which has forever given a *syndical* cast and character to agricultural cooperative credit in France.

This law, enacted through the influence of MM. Méline and Albert Viger, the latter several times Minister of Agriculture, is the true charter of agricultural cooperative credit in France. According to its provisions the cooperative credit societies have been made adjuncts of the *syndicats*, that is,

they may be formed only by all or a part of the members of one or more than one agricultural professional *syndicat*, and only for the purpose of facilitating and guaranteeing operations relating to agriculture carried on by such *syndicat* or *syndicats* or members. By a law of January 14, 1908, however, members of agricultural mutual insurance associations were empowered to form credit societies.

The first *syndical* banks or credit societies for agricultural credit which appeared under the 1894 law were those founded by Jean-Baptiste Josseau at Coulommiers and by Emile Duport under the auspices of the *syndicat* of Bellesur-Saône. In order to hasten the movement, Eugène Rosstand, president of the Savings Bank des Bouches-du-Rhône, with the assistance of M. Guillaumont obtained the passage of a law in 1895 authorizing all savings banks, under certain conditions, to invest the entire revenues from their capital stocks and one-fifth of these funds in loans to agricultural co-operative societies or in discounting their paper. Within two years thereafter there were 75 banks operating under the 1894 law, and at least one hundred under the 1867 law, while 418,495 farmers were combined in 1,499 *syndicats* organized under the 1884 law, mainly for making collective purchases of fertilizer and feed. All this good work was done practically within 12 years on the private initiative of the farmers themselves. But the progress was not rapid enough to satisfy the co-operative enthusiasts, particularly in the matter of credit. Without taking the farmers into their councils or considering the gravity of the step, they decided to appeal to the state for assistance, to hasten the realization of their ambitions for co-operation.

The opportunity came with the debate on the renewal of the privileges of the Bank of France. This great national institution was founded in 1803, placed under the control of the state, and given a monopoly of issuing notes payable at sight to bearer. Its primary objects were to assist industry and commerce and to take care of the financial needs of the state, but from an early date it had upon its own initiative placed its services at the disposal of agriculture. It had

helped the agricultural *syndicats* to form credit societies and also had supplied individual farmers directly with funds for fattening cattle for the market. The loans for this purpose made between 1867 and 1880 through the various branches of the Bank totaled over \$28,000,000. As the profits were \$5,000,000 and no losses had been suffered, the Bank considered that farmers were safe and profitable customers and gradually extended its business with them. It had, in fact, become the greatest single factor in agricultural finance and it was putting itself in the way of gaining continuing and handsome profits therefrom. Consequently, leaders in the Assembly thought that the Bank of France should be compelled to pay tribute to agriculture, and they planned to bring this about upon the renewal of its note-issuing privilege, which was to expire in 1897. The socialists proposed either that \$12,000,000 of the reserves of the Bank of France should be appropriated for creating a central agricultural bank, or else that the Bank of France should turn over to the state \$100,000,000 to be lent at low interest rates to farmers. These projects were championed by strong men. But the disaster which overtook the first central agricultural bank in 1876 was still fresh in memory. Moreover, many realized that the discount rates of the Bank of France would probably have to be raised if a large portion of its ready cash were tied up for the length of time required for agricultural loans, and saner views at last prevailed.

Accordingly, on October 31, 1896, the Bank of France in consideration of having its privileges renewed until the end of 1920 agreed to make a loan to the Government of 40,000,000 francs (\$8,000,000) to run to that date without interest. The law of November 17, 1897, ratifying this agreement provided that the Bank of France should also pay annually to the state during this entire period a royalty on its operations so calculated that the amount for each year should never fall below 2,000,000 francs, and that this money also should be devoted to agriculture. The law further required the Bank to discount the bills of exchange and negotiable instruments

subscribed or indorsed by agricultural *syndicats* and all other persons known to be solvent. The royalty was determined at first by multiplying the productive circulation of the Bank by one-eighth of its discount rate. By an amendment to the law in effect December 20, 1912, provision was made that when the rate of discount shall have been in excess of four per cent during any given period, the percentage used for calculating the royalty shall be raised for such period from one-eighth to one-sixth. Between 1897 and 1913 the Bank of France has advanced 250,000,000 francs to agricultural co-operative banks and 576,000,000 francs to farmers directly, which, added to the loan and royalties paid to the state, make a total of one billion of francs or about \$200,000,000 in 15 years for the use of agriculture.

At the time the privilege of the Bank of France was renewed, legislation was devised for the purpose of providing the machinery for distributing among the farmers the loan and royalties which had been exacted from it. This legislation, drafted by M. Jules Méline, was placed on the statute books through the combined influence of himself and Senator Albert Viger on March 31, 1899. The Méline law, as it is called, has brought about the creation of the most symmetrical system of agricultural cooperative banks and credit societies existing in any country. While it is aided and at present practically supported by the state, its avowed purpose is to stimulate the private initiative of the farmers, and when this temporary assistance has accomplished its work and been finally withdrawn, France hopes to have a perfect machinery for financing agriculture.

The Méline law provides that regional agricultural co-operative banks shall be founded according to the regulations of the law of 1894, with powers of assisting and facilitating operations relating to agricultural production carried on by members of the local cooperative credit societies within their prescribed territories and guaranteed by such societies. The regional banks are authorized to discount the negotiable instruments made by members of the local societies and indorsed by such societies, and also to make loans to such

societies for working funds. The paper having thus three signatures, those of the borrowing farmer, the local society and the regional bank, is "bankable" according to the commercial and banking codes, and the regional banks may rediscount it at the Bank of France or at any other of the big credit institutions in France provided the time is not over nine months.

Although these regional banks were devised for the special object of distributing to the farmers the money which the state receives from the Bank of France, they are not formed by the state. They are private, voluntary organizations, but if they desire to obtain state aid they must place themselves under the control of the Government. This control is exercised by the Minister of Agriculture through the bureau composed of public officials which is charged with the distribution of the loan and royalties received from the Bank of France. By a law of December 25, 1900, each regional bank may receive out of these funds a five-year loan without interest equal to four times its paid-up capital. By a law of December 29, 1906, one-third of the royalties may be used for loans through the regional banks to cooperative societies organized for the production, manufacture or sale of agricultural products, or for carrying on any agricultural enterprise in common. But every such society must be affiliated with a local credit society, and no loan may run for longer than 25 years or be larger than twice its paid-up capital. Finally, by a law of March 19, 1910, loans may be made without interest and for 20 years to the regional banks up to double the amount of their paid-up capital to be used exclusively in helping farmers to acquire or improve small homesteads. No loan to any individual farmer may exceed 8,000 francs (\$1,600) or run for longer than 15 years. It must be repayable by instalments or annuities and be secured either by a mortgage on the property or by an insurance policy on the life of the borrower. Land-credit societies created conformably to a law of April 10, 1908, also may receive advances from the state for this purpose in the same way as the regional banks.

The first regional bank to be established was La Caisse Regionale de l'Est, formed by Mr. Méline on June 29, 1899, less than three months after the law regarding such institutions was placed on the statute book. In two years there were seven. By 1904 the number began to steadily increase under the stimulation of free loans from the state, and then it was that the Minister of Agriculture established a bureau for their supervision and control. Now there exist practically all the regional banks that are needed. Thus the Government has accomplished within 15 years and by advancing large sums of money its long cherished object of having a great agricultural credit system embracing the entire nation and available for all farmers belonging to *syndical* associations or cooperative societies. At the base of this system, called the "Crédit Agricole Mutuel," are the local credit societies. Above them and largely formed by them are the regional banks, and over all of the latter which receive aid from the state is the Bureau of Supervision and Control of the Ministry of Agriculture, placing them in touch with the Bank of France, while assisting this Bureau for propaganda and organization work is the Central Federation of Agricultural *Syndicats* of France. And this system is doing another great work in addition to improving credit facilities for farmers. It is gradually bringing all the agricultural coöperative associations in France together in a solid league for mutual self-help, since under the 1894 law as amended the local credit societies may be formed only by members of *syndicats* and of mutual societies. That is to say, the *syndicats* form the credit societies as well as the associations for other cooperative purposes, and the *syndicats* then form themselves into unions which are united to the Central Federation.

The requirements provided by law for forming and operating these credit institutions are very simple. Before beginning business articles of agreement must be made out in duplicate, with lists of officers, directors and members showing full names, vocations, residences and the number of shares subscribed by each. One copy must be filed with the justice of the peace of the canton in which the credit society intends

to have its headquarters. The other copy must be filed with the tribunal of commerce of the assembly district in which the canton is situated. Before February 15 of each year similar statements must be filed in the same places with a brief account of the receipts and expenditures as well as of the operations of the preceding year, which are open to inspection by all who wish to see them. Officers are personally responsible for any damages resulting from violations of the law and are subject to a fine not to exceed \$100 for any false entries in the articles of agreement. The articles must designate the headquarters and the manner of conducting business, and show how the capital is to be formed and the proportion that each member must contribute to it. The capital may be formed only by subscriptions by persons who are already members of some agricultural professional *syndicat* or agricultural cooperative insurance association. Shares may be of equal or unequal value, but they must be made out in the name of the owner and cannot be transferred except with the consent of the society and then only to another member. Their size is usually \$4 to \$8, so that the poorest farmers may join. No society may begin business until at least one-fourth of the subscribed capital has been paid up. In case the capital is variable it cannot be reduced below the original amount named in the articles of agreement. The articles must also specify the maximum of deposits that may be received, and determine the liability of members, which may be either limited or unlimited but in every event must continue until all obligations contracted by the society before their withdrawal have been settled.

The articles must define the methods to be used for the distribution of profits. The surplus, after paying running expenses and interest on deposits or on whatever loans have been contracted, must be set aside each year up to at least three-fourths for the creation of a reserve until such reserve equals one-half of the capital. Dividends, in the strict legal meaning of that term, may not be declared, but any balance existing at the end of the year may be prorated among the *syndicats* and among the members of the *syndicats* in the

form of rebates on their payments for transactions carried on for them. On dissolution the reserves and other assets shall be distributed among the members in proportion to the amounts paid on their subscriptions, unless the articles prescribe some other method of disposal for an agricultural purpose. The credit societies are subject to the regulations of the commercial code and must keep their accounts and books according thereto, but they are exempt from certain license taxes and stamp duties.

The powers of a local credit society thus formed are to receive deposits with or without interest; to make short-term loans for distinctly agricultural purposes; to accept or discount agricultural paper; to rediscount such paper at a regional bank; to make long-term loans out of moneys received under the law of March 19, 1910; to pay out and collect money on account of their customers; to contract loans necessary for creating or increasing their working funds; and to invest their idle funds in government or municipal bonds, in stock of the Bank of France or of railroads guaranteed by the state, or in debentures of the *Crédit Foncier*. The reserves may be kept at a regional bank or at a public savings bank.

The supreme authority of a local credit society is lodged in the members regularly assembled. Each member has as many votes as he has shares and may vote them by proxy, but usually the maximum of the votes of an individual member is limited to four or five regardless of the number of his shares. Each year the members elect two supervisors to report on the condition of the society at the annual meeting of the following year. They also fill the vacancies in the board of directors, one-third or one-fourth of whom are retired each year. The board of directors elects the president and vice-presidents and the secretary-treasurer. The latter official and the managing director alone may receive salaries. The board of directors must all be members of the society, and they manage its affairs always by a majority vote.

The office of the society is ordinarily opened once a week,

usually on Sundays or market days. The rate of interest on the long-time loans made with money received from the state to enable farmers to buy or improve small homesteads is determined by the Ministry of Agriculture. The rate on short-term loans, however, depends on the condition of the money market, at present it is about four per cent, and it is always at least one per cent higher than the discount rate of the regional banks. The law does not restrict the local societies to lending to members only, they may lend to any farmer who needs money for an agricultural purpose, but only the paper of a member may be discounted at the regional bank. They may lend also to agricultural *syndicats*, agricultural mutual insurance societies and agricultural co-operative associations organized for the purchase, manufacture or sale of agricultural supplies and products. No limit has been prescribed by law as to the size or length of the short-term loans. In some of the societies the size is proportioned to the sums paid up by the borrowing member on his shares, and may not exceed 10, 15 or 20 times that amount; in others the maximum is fixed between \$200 and \$400, but in every case the credit rests upon the character of the borrower, and no person, no matter how well-to-do, can get a loan unless his reputation for industry and honesty is good. The loans generally run for three months, with right to one, two or three renewals.

The loans are made on promissory notes, bills of exchange or some form of negotiable instrument, and an indorsement by a responsible party or security in the way of collateral or chattel mortgage is always required. The 4,204 local credit societies of the *Crédit Agricole Mutuel* in 1912 had altogether 215,695 members. The subscribed capital was \$4,101,586, of which \$2,704,310 had been paid up. The reserves were \$566,393, and the short-term loans outstanding at the end of the year amounted to \$12,964,531. The outstanding long-term loans to cooperative societies under the 1906 law amounted to \$517,575, while the outstanding long-term loans to farmers on their homesteads under the 1910 law amounted to \$1,544,399. Nearly 2,050

farmers have so far taken advantage of this law, and the average loan received from the state was \$745 for each individual

The local banks so organized out of the *syndicats* and insurance societies are thus the base of the system. There is no restriction as to the number which may exist in any given territory. They do not receive any direct aid from the state, which is granted only to the regional banks. As soon as the board of directors of a local credit society is elected, it proceeds to the selection of the officers. The president thereupon requests affiliation of the new bank with the regional bank of its department and delivers to it a copy of its by-laws and a list of members, officers and supervisors. In order to effect mutuality between the two, the local bank should subscribe to some shares of the regional bank. The number is not prescribed and varies with its available resources.

The regional banks are similar in organization and administration to the local credit societies, since both must be formed under the 1894 law, but by a provision of the 1899 law the articles of agreement of a regional bank must define the area of its operation and specify the amount of its capital and number of its shares, two-thirds of which at least must be offered to local credit societies for subscription. Dividends may not exceed five per cent per year. A regional bank when thus duly formed may discount the negotiable instruments of members of local credit societies within its territory upon the indorsement of such societies; and it is authorized also to make loans to such societies; out of the funds received from the state to make advances to such societies for them in their turn to lend at long term for creating or improving small homesteads according to the 1910 law; to receive deposits; to issue notes up to an amount not exceeding three-fourths of the value of the securities which it has on hand; to rediscount all its bankable paper; to invest its idle funds in the same way as a local credit society and to receive money from the state for lending at long term to coöperative societies according to the 1906 law; and it is

especially charged with the supervision of the local credit societies affiliated with it.

All regional banks which receive money from the state are subject to the supervision of the Ministry of Agriculture and must keep their books and accounts in accordance with the rules and regulations prescribed. They must submit financial statements to it four times a year and annually they are examined by a government inspector. They cannot affiliate with local credit societies organized on the unlimited-liability plan because such concerns have no funds with which to buy shares, nor are they permitted to do business with any society which is not exclusively agricultural or which pays to members as dividends more than five per cent a year on its capital. The regional banks endeavor to be as large as possible for the reason that the amount of the money they may receive from the state depends upon the size of their capital. In 1912 the 98 regional banks receiving aid from the state had a combined capital subscribed of \$4,666,068, of which \$4,310,244 had been paid in, \$2,782,039 having been contributed by the local credit societies. The reserves were \$1,242,595. They had taken in \$4,007,219 of deposits. The total of their discounts and renewals for the year was \$36,523,760, while the loans to the local credit societies for various purposes outstanding at the end of the year amounted to \$12,677,602, and to agricultural *syndicats*, cooperative associations and mutual insurance societies to \$2,886,800. The discount rate of only two of the banks was less than that of the Bank of France. The general expenses of all these regional banks amounted to only \$102,406, showing that they are run economically and with comparatively little expense.

The total amount of the debt of this system of rural co-operative banks to the state is now \$17,177,745. This has all come from the Bank of France. The law of 1899, enacted for the distribution of the Bank's loan and royalties, had at first in view only loans to individual farmers at short term and provided that advances should be made to the regional banks without interest for five years with renewals if necessary for making loans to or discounting the paper of

members of the local credit societies. But the scope of the system was gradually extended. In 1906 a law was passed for organizing collective credit at long term whereby one-third of the royalties of the Bank of France were set aside to be loaned by the regional banks to agricultural coöperative societies for 25 years at two per cent per annum with amortization. Finally, in 1910 long-term individual credit for individuals was organized by a law whereby the regional banks were required to use two-thirds of the royalties for making 8,000-francs (\$1,600) 15-year reducible loans to farmers through the local credit societies for creating small homesteads. Thus at present only the \$8,000,000 loan from the Bank of France is used for short-term loans, and by a law of 1912 the Government has been authorized to take \$2,400,000 of this for long-term individual loans, to be reimbursed out of the royalties as they fall due. By a law of 1910 the Government may advance six times instead of four times the amount of the capital of a regional bank in any district where the grape growers have been afflicted with bad crops.

The loan of \$8,000,000 which the state received from the Bank of France must be repaid in 1920. The royalties, which in 1913 amounted to \$17,860,720, make a total thus far of \$25,860,720 obtained from the bank. The royalties are increasing yearly and there is a possibility that the state will be able to repay the Bank at the appointed time, but it is evident that the rural credit system is not yet self-sustaining or in a position to meet its obligations to the state. The question is being discussed how the system will take care of itself when the assistance which was intended to be temporary is finally withdrawn. During the first years the Government did not demand any partial payments from the regional banks on the renewals of their loans, but during recent years it has exacted one-fifth of one per cent of the principal upon renewal. In this way the regional banks are gradually accustoming themselves to looking elsewhere for working funds.

There are four natural sources from which these may be drawn. The first is from deposits, but deposits are com-

paratively small at present. The second is by the increase of their share capital, but dividends would have to be allowed and materially increased in order to bring this about. The third is by loans from individuals or from the savings banks. Many of the latter institutions are owned by municipalities and all are subject to the control of the Government. Their combined assets exceed \$18,000,000, of which \$5,000,000, saying nothing of annual revenues, are available for agriculture by the law of 1895, but very little of them have been used yet for this purpose. The fourth is by short-term bonds of the regional banks, provision for which was made by the law of 1899. No bonds have yet been issued, but they might be made an effective means of financing the agricultural mutual credit system provided safeguards are thrown around their issue. Until deposits begin to be attracted in sufficient volume for their transactions, the regional banks probably will depend upon the two latter sources after state aid is withdrawn, although the plan of establishing a central bank to take the place of the state is favored in many quarters and even by the Government.

Nothing, however, has yet come to light to enable a forecast to be made of the direction which future development will take. Indeed the future is very uncertain. State aid which has been so lavishly extended in France has registered a conspicuous failure when considered from the viewpoint of the hopes entertained in 1899. Even its partisans are far from satisfied with the progress made, and are now contemplating amendments to the laws in order to bring about vital changes in the *Crédit Agricole Mutuel*. To say nothing of the dependence upon funds officially supplied, the intimate relations between the system and the Government bind together the financial destinies of both. The occurrence of a great war, for instance, which only served to prove the absolute solidity of the self-reliant German system in 1870, might imperil the very existence of this French state-aided system. No one can foretell, of course, what will happen, but perhaps, as the years roll on, larger numbers of members of the *Crédit Agricole Mutuel* will appreciate the value of the prin-

ciples of self-help maintained by the Federation of the Farmers' and Workmen's Banks with Unlimited Liability and, in a lesser degree, by the Central Federation, and then the full meed of praise will be bestowed upon Rostand, Rayneri and especially upon Louis Durand, who for over a generation have been fighting the good fight for mutual self-help and pure cooperation.

CHAPTER XXV

ITALY LUZZATTI AND WOLLEMBORG

Luzzatti and His Cooperative Credit Bank—Departures from the Schulze-Delitzsch and Raiffeisen Systems—Legislation—Management—Business.—Wollemborg and Rural Credit Societies—National Federation of Rural Credit Societies.—Position of the Church—Success of the Associations—Special Laws for the South—Government Aid.—Casse Ademprivili of Sardinia—Central Banks versus Local Organizations

THE honor of the establishment of cooperative credit in Italy is due to Luigi Luzzatti and Leone Wollemborg, two illustrious Jews, whose unselfish work, begun early in life, has been rendered doubly effective by the sympathy and support of the Catholic Church and the state. Both came from wealthy families, were finely educated, had precocious abilities as writers, orators and organizers, and have held high positions in the civil government. Luzzatti has been several times Minister of Finance, Minister of Agriculture, Commerce and Industry, and Prime Minister. Dr. Wollemborg has served in Parliament and has been Minister of Finance.

These two men, powerful in banking circles and politics, are famous throughout the cooperative world, the first for having originated a new type of people's bank, and the second for having implanted a system of rural credits which was thought to be inadaptably to Italian conditions. When they began their work, the laborers and farmers in many parts of Italy were sunk in dull apathy because of rapacious usury and had sullenly reconciled themselves to extortionate demands of their landlords as well as the money lenders. Little cash was available. Interest rates reached the highest

point on record and supplies were bought at ruinous prices. As typical of the prevailing situation Sir Frederick A. Nicholson mentions the instance of a ring formed in Abario to squeeze the last cent out of the impoverished population. These usurers sold \$10 worth of corn for \$20 on three months' time. This meant interest at the rate of 400 per cent, while for small loans the usurers exacted 1,200 per cent payable in advance, besides commissions, with possibly dinner and wine for the lender and broker.

Aroused by the sight of such wrongs practised even within the precincts of the great savings banks and charitable lending institutions which abounded in Italy, Luzzatti in 1864, then only 23 years of age, made a trip to Germany to study coöperation. Fired by the teachings of Schulze-Dehltzsch, on his return home he wrote a monograph, now classic, on the diffusion of credit, and he continued to advance his ideas on this subject in the University of Padua in which he had been made a professor of political economy. But he shortly deserted scholastic for political life, and soon began to make a practical application of the principles which he had evolved.

On May 25, 1866, Luzzatti opened at Milan the first coöperative credit bank in Italy. Its capital was only \$140, of which he contributed \$20, thus becoming the heaviest shareholder. It employed no paid officers or clerks, and Luzzatti himself did all the work, receiving the funds which came in and attending to the loans while seated at a desk on the sidewalk in front of its humble office, much to the amusement of his rich friends, who were utterly unable to understand the purpose of his course or to appreciate the great possibilities which lay in the idea he had conceived. To-day this People's Bank of Milan has grown to be one of the largest moneyed institutions in Italy. It is lodged in a palatial office building and has about 70 unpaid officers and more than 100 paid clerks. In 1909 the number of its members was 24,774. Its capital was \$1,923,910, divided into 192,391 shares, and back of this was a reserve of \$961,955. Its deposits, savings and ordinary, were \$32,729,874,

and its turnover of business amounted to \$535,693,455. Upon this it realized a profit of \$306,235, which enabled it to distribute a dividend at the rate of 7.20 per cent on the 50-lire (\$10) share after paying its relatively small managerial expenses, amounting to \$92,444, taxes, etc., and setting aside a liberal sum for charity.

Besides rising to this high eminence from its unpretentious beginnings 48 years ago, the People's Bank of Milan has served as a model for 735 similar banks, which had, in 1908, 501,022 members. Their capital and reserves amounted to \$31,132,800, and their deposits to \$200,000,000, while their total turnover exceeded \$320,000,000. About \$100,000,000 of the turnover represented loans to farmers. The older of these banks belong to a federation organized by Luzzatti in 1876 with headquarters at Rome, and most of them are loosely grouped around nine of the largest banks. The People's Bank of Milan does business with about 300 of them. But they are not bound by contract or made subject by law to inspection or audit by any higher supervising authority, and hence do not constitute a system, properly so-called.

The people's banks of Italy are likened to the Schulze-Delitzsch banks of Germany, but although based on the same general principles there are fundamental points of difference between the two. When Luzzatti made his trip to Germany in 1864, both Schulze-Delitzsch and Raiffeisen were preaching unlimited liability. Realizing that such a plan would not be acceptable to Italians, Luzzatti formed his bank at Milan with limited liability. He did away also with Schulze's large shares payable in small instalments running over long periods, and substituted in their stead shares of 50 lire (\$10) payable in ten instalments, thereby reducing the intake of funds from this source. This feature forced his bank to depend mainly on deposits for carrying on its operations, and made the capital a guarantee rather than a working fund, which is altogether different from the case in Germany. Next Luzzatti discarded Schulze's idea of reasonable salaries and compensation and required all officers of

his bank to serve absolutely without pay. Finally he enlarged the boards and committee and even created new offices, and by thus providing for a more numerous administration made the management of his bank very democratic. This has resulted in keeping the bank and the members in closer touch with one another, and also has enabled the bank to attend to the needs of the poorer members with greater safety and to give them more careful consideration than the German banks have found practicable.

During the early years the people's banks of Italy encountered a serious difficulty in the lack of proper legislation. The essential feature of a cooperative society is a variable capital, a capital susceptible of increase by successive payments and the subscription of new shares by the members or the admission of new members, and of decrease by the withdrawal in whole or in part of the amounts of the shares. But the Italian laws as they then stood provided only for fixed capital. The banks were compelled to form themselves accordingly, but they managed to assume a cooperative character by issuing new shares as occasion required and then having these issues made legal at the end of the year by voting an increase of the capital stock. This irregular subterfuge was necessary until January 1, 1883, when a new commercial code opened the way for true cooperation.

According to this code, as amended from time to time, cooperative associations may be organized with or without share capital, and may be based on either limited or unlimited liability, or liability limited as to some members and unlimited as to others. They may be created by filing a sworn organization certificate, which must show the conditions for the admission, withdrawal and retirement of members, and the manner and times of payments on shares subscribed for. It must show also the method of calling meetings of the members and designate the newspaper to be used for publication of notices, etc. If a society has unlimited liability, the officers must file at the tribunal of commerce every three months a list of its members, showing all who were admitted and retired during that period. Shares having a value of over

\$20 cannot be issued. No one may hold more than \$1,000 of shares, or belong to two or more credit societies at the same time. Members are responsible, according to the form of liability assumed, for all obligations contracted by a society up to the day of their retirement, and this liability lasts two years.

Such are the main provisions of the code. Its object was to bring cooperative associations under the common law and to make each amenable to the rules prescribed for its form. Hence there is very little difference between the legal status of a cooperative concern and one formed for a purely lucrative object. They may be organized for the same purposes, have the same powers, and arrange by their by-laws all the details of their organization and management subject to the regulations of the code and other laws applying to both alike. Cooperative societies are exempt from certain taxes and stamp duties under certain conditions, while savings banks and municipalities may deposit their funds with credit associations. These are the only privileges which they have been granted.

The people's banks governed by this law have all taken the limited-liability form, and although there are considerable differences among them in detail they are organized and managed along the same general lines. Since they are strictly cooperative, only those features need be referred to which distinguish the Italian from the German and French types of society already described.

The model for by-laws prepared by the Luzzatti federation shows that the territory of operations is frequently so extended that branches and agencies are established to cover it. Shares rarely exceed \$10 or entrance fees \$5. The value of the shares and the size of the entrance fee for new members is determined each year and depends upon the amount of paid-in capital and reserves, the larger and older banks as a rule being the more expensive to join. Similarly, the monthly instalment on shares and the number a member is allowed to hold depend upon their value. In a rich and prosperous bank the instalment may be fixed at two lire (40

cents), and if the share is 50 lire the maximum for holdings may be 2,500 lire (\$500). The privilege of paying in monthly instalments is allowed only to a person acquiring but a single share. The character of an applicant for admission must be indorsed by two members.

The annual meetings of the members are held usually in the middle of March. Special meetings may be called by the proper officers or by one-tenth of the total number of members. One-fifth of the total number constitute a quorum. Officers cannot vote at these meetings on matters relating to their official acts. Unless expressly permitted by the by-laws, voting by proxy is barred.

The supreme body in the management is the board of directors. In small banks their number is seven, and in the larger 130 to 140. One-third of them are renewed each year. The chairman of the board is the president of the bank. One-half of the body constitutes a quorum, and meetings are held fortnightly. The board may engage a manager and a cashier who upon appointment must enroll as members. It may delegate its powers to one or more of its members, but generally when the board is numerous the bank has a committee of control of five. No relative of a director to the fourth degree of consanguinity or affinity may be a controller. To the committee of control is assigned the duty of auditing and reporting on the annual balance sheet and exercising a constant and effective supervision over the finances and administration of the bank. Members of the committee take weekly turns, and one of them must be in attendance at the bank each day.

The discount committee consists of at least five, and in the larger banks of 15 to 40 members, who remain in office for two years. They meet each week, jointly with two or more of the directors designated by the president, for passing upon the applications for loans, and no loan may be granted or bill discounted except with the approval of a majority. One of the special duties of this committee is to prepare and revise a register or card list showing the credit standing of each member. If a borrower fails to perform his engage-

ments, or if his security depreciates ten per cent, or if his own rating falls below the estimate on the register, the credit extended to him is immediately recalled unless he can make good the deficiency. As an adjunct to this committee the larger banks have a committee on risks to keep watch on all outstanding loans. There is also a committee on "honor" loans to attend to members who are so poor that they cannot furnish security or indorsers but seek credit on their character alone.

All banks have a committee of three arbitrators elected for three years, whose duty is to decide cases carried to them on appeal regarding the admission and expulsion of members and the refusal of credit. Except in the matter of admitting new members, they must act as friendly arbitrators and try to assure every member equitable treatment at the bank. Their decision is final unless set aside at a meeting of the shareholders.

The business of the Italian people's banks embraces all kinds of banking transactions. They may receive deposits from outsiders and even extend credit to non-members who are in need and worthy of their help. The larger banks all have special funds for this benevolence. Real-estate mortgages are not favored and collateral and pledges of personal property are avoided as much as possible. The indorsement of one or two members is the preferred security, for the "capitalization of honesty" has been Luzzatti's watchword from the beginning. Cash credit is frequently practised, but the acceptance and discounting of bills of exchange are the modes of according credit generally used. Commercial banking, it will be remembered, originated in Italy, and the humblest persons are familiar with banking paper and accustomed to use all its various forms in their transactions. Bills, notes and drafts for the smallest amounts pass through the people's banks. The maturity is three months, with privilege of renewal one or two times upon making partial payments. The maximum ordinarily allowed farmers is one year. Except in the case of farmers the loans are not required to be employed for a specific purpose. The banks

have brought the interest rate on credit down to 7.5 per cent and in many places to four per cent. Deposits draw three to four per cent. Most banks set aside 25 to 30 per cent of the annual profits for the reserves until these with the capital give them a fair-sized working fund. The average dividend on shares (1908) was 8 3/4 per cent.

The people's banks of Italy have not proved very successful in helping poor persons without any resources of their own. In fact they are not intended for this class any more than are the Schulze-Delitzsch banks of Germany. Their clientèle is composed mainly of small merchants, shop-keepers, artisans such as tailors, boot-makers, etc., who work on their own account, and all those whose reputation and solvency are good yet have not sufficient business or standing to obtain recognition at the commercial banks. According to recent statistics, 70 per cent of their money is lent in sums ranging from \$40 to \$1,000, 13.45 per cent in sums above \$1,000, and only 17.04 per cent in sums below \$40. Nor have the people's banks rendered as much help to farmers as was at first expected of them, for the reason that they do not find it convenient to grant loans for the long periods required by agriculture, or else they obtain more profitable employment for their funds in the cities.

Under a law of 1869, credit institutions which receive a special license may issue legal-tender notes against certain cash balances. Under a law of 1887 such institutions may issue bonds for raising money for use in making loans secured by mortgage or on a certain kind of land security peculiar to Italy. These laws were enacted in behalf of agriculture, but only a few of the larger people's banks have availed themselves of these powers and their transactions thereunder have not been very important. The usual way in which they help the farming classes is by making loans to agricultural associations or rural credit societies or by discounting the paper passed through such concerns. Most of the \$100,000,000 which the people's banks claim to have devoted to agriculture is represented by this kind of business. Many of the Catholic banks formed on the Luzzatti

principles and located in villages, however, have many small farmers among their members and have proved themselves perfectly adapted to their needs. But whatever may be the extent of the financial assistance which the people's banks have rendered agriculture, they have always given their friendly services to strengthen the rural banks and increase their number. This harmonious relation is in striking contrast with the situation in Germany where the two systems are practically opposed to one another.

An agitation for introducing Raiffeisen credit societies in Italy began as soon as the enactment of the law of 1883 made the existence of these little institutions possible. At that time there were 139 of Luzzatti's banks in existence, but only an insignificant part of their 114,072 members were farmers. Usury was as rampant in the fields as ever. Luzzatti, realizing that something should be done and well knowing what the remedy was, said in effect: "If the ardor of an apostle were to raise up banks similar to those of Raiffeisen, they would be welcome. I will not in Italy renew those useless polemics which have disgraced the cooperative movement in Germany. If that apostle should not disdain to accept it, I would offer him my hand for alliance and help." Wollemborg, then only 24 years of age, had been studying the subject for several years, and when he heard Luzzatti's appeal he replied: "I am he." Both have kept their words. The elder stood behind the younger man until he had accomplished his task, and the two are now recognized as the leading exponents of cooperative credit in Italy.

Wollemborg started his first rural credit society in Loreggia, a parish near Padua. Everyone told him that his experiment would be a failure, but with the help of the priest he induced 32 persons to join, and the society was opened on August 13, 1883. In 18 months 96 more had joined, and 16 had gone out, of whom four had died, six migrated, five withdrawn, and one had been expelled. At the end of four and one-half months the society had taken in \$1,400 of deposits, \$400 of which belonged to Wollemborg.

The Loreggia Credit Society has no shares or capital

stock. This was according to the original principle of Raiffeisen, which could not be carried out in its purity in Germany where the laws make share capital compulsory. No dividends are paid and the whole of the profits are turned into the reserve. The reserve fund is owned absolutely by the society itself and no member has any right in it. In case of dissolution it would be placed in trust to be held intact for any new bank that might be organized in the vicinity on lines similar to the one dissolved.

The reserve is used for covering losses and for carrying on operations, and whenever it reaches a size deemed sufficient for these purposes, the annual proceeds are devoted to some work of common utility. The by-laws expressly declare: "The duty of the society [is] to promote all institutions likely to better, morally or materially, the condition of the inhabitants of the village, and to foster the foundation of cooperative associations for production, sale and consumption, by granting loans or opening cash credits to persons undertaking such enterprises." All loans, no matter what their duration is intended to be, are granted only by successive renewals of three months each. This practice enables the society to decline to continue the credit should a borrower's standing or security become impaired; and also to encourage him to make at regular intervals partial payments of the money advanced to him.

Disputes between members are decided at their meetings; if they are not settled there, three arbitrators must be selected by the parties, in accordance with the civil code. There is also a committee of five controllers, who, before the law forbade it, might be non-members. This arrangement was suggested by Luzzatti, who believes that the management and the control of a credit society should always be kept separate and distinct. Thus the Loreggia bank follows the Raiffeisen type, with some important differences. It does not teach religion, but it requires all members to know how to read and write. It does not buy or sell supplies, and in place of long-term loans recallable on four-weeks' notice, it accords short-term renewable credit. It charges small entrance fees,

has an extra body, the committee of control, in its administration, and possesses a more numerous committee of management than its German model. In other respects they are alike.

The Loreggia Credit Society still remains small. It is not much larger in numbers than it was a few years after it was started but it is great in power and influence. The thousands of dollars of credit which it has dispensed during its existence stamped out usury in Loreggia and has raised many a poor man out of abject want into a state of competency where he could support his family in comfort. The habits of thrift and industry which it inculcated and fostered, and the spirit of independence, honor and fraternity which it awakened among its members by making them the responsible managers and liable one and all for the society's debts, did much to elevate the moral tone of the parish. The results in reforming the moral and economic condition of the lowly and impoverished classes of which it was composed were quick to appear. Six years after it was organized the priest of the village said:

They are going now less to the saloons, and they are working harder and longer. Since only respectable persons are admitted as members, the effect has been that even drunkards have resolved no longer to frequent the saloons and have kept their vow. Ignorant men of 50 years and over have learned to write so as to be able to sign applications for loans or notes or bills. Here an individual, refused admission because he had applied to the board of charity for help, has taken the steps to have his name erased from its lists, and now instead of depending on alms, lives upon his own work with the aid of the money supplied him by the society. There a poor hired hand who was barely able to support himself has purchased a cow and paid his debts with the proceeds of the milk and cheese, and yet has been able to keep the calf, a thing which he could never have accomplished without the aid of the society.

*This shows that rural cooperative credit started in Italy among the very poorest of the poor. But it is no longer confined to its original humble circumstances. It has spread over

the entire country and serves all sorts and conditions of farmers. There were in 1913 at least 2,094 rural credit associations. One-third of them are non-sectarian and the rest are Catholic. The former are not consolidated into any system, although about 300 of them belong to the National Federation of Rural Credit Societies, which succeeded a similar organization founded by Wollemborg at Padua in 1887. This Federation is not an auditing or supervising body. It has no control over its adherents. Its sole object is to increase the number of credit societies, encourage their development, and promote and protect their interest by means adapted to the occasion. Its official organ is *La Cooperazione Rurale*, founded by Wollemborg in 1885, the oldest journal for cooperative propaganda in Italy.

The Catholic rural credit societies are mostly all grouped in diocesan unions, which in turn are united to the National Federation of Catholic Rural Credit Societies organized in 1909, upon which the Pope by a rescript dated January 25, 1910, pronounced his Apostolic blessing. A large number of them do cooperative buying for members, while there is a greater tendency toward share capital among the Catholic than among the non-sectarian credit societies. Otherwise, there is little to distinguish the two except that all members and officers of the Catholic societies must be of that faith.

The position of the Church in regard to this matter for Italy as well as for foreign lands is defined in the epistles of Cardinal Merry del Val to Bishop Bougoun of Perigueux and Sarlat on July 29, 1912, to Count Stanislaus Medolago Albini on March 15, 1910, and to Louis Durand on April 17, 1910. All these are repetitions of the injunctions laid down in the encyclicals *Rerum Novarum* and *Longinque Oceani*. In the former, issued May 15, 1891, Pope Leo XIII declared: "Christian workmen must do one of two things, either join associations in which their religion will be exposed to peril, or form associations among themselves—unite their forces and shake off courageously the yoke of so unrighteous and intolerable an oppression. No man who does not wish to expose man's chief good to extreme risk will for a moment

hesitate to say that the second alternative should by all means be adopted." In the latter, issued on January 6, 1895, for Catholics in the United States, he declared: "Now as regards entering societies . . . Catholics ought to prefer to associate with Catholics, a course which will be very conducive to the safeguarding of their faith" Further on, in referring to working classes of all kinds, he said that they "surely have the right to unite in associations for the promotion of their interests, a right acknowledged by the Church and unopposed by nature." The deep interest displayed by the Church has given a strong impetus to the movement for creating Catholic rural credit societies, which began in 1890 after Wollemborg had established 44 societies.

Statistics regarding the rural credit societies of Italy are meager, for the reason that there are no federations or supervising authorities to which they are all required to report. The work of gathering the figures is voluntary and it is not completely done nor kept up to date. Some of the societies have capital formed by shares, but most of them do not require their members to subscribe to shares and they exact only a small fee of a few lire upon admission. The societies depend mainly upon money borrowed from larger banks and upon deposits for carrying on their operations. In 1913 their capital and reserves totaled \$600,000. The deposits amounted to about \$20,000,000, most of which came from outsiders. The interest rate varies from 3 5 to 4 per cent. They do a considerable business in the acceptance of bills, and grant both short- and long-time loans. Short-time loans are those which run for two years or under. They are made upon three-months' bills, renewed from time to time with interest paid in advance. Long-time loans run from two to ten years, and are repayable by instalments or annuities. The total amount of loans passed in 1913 was about \$50,000,000. The interest rate on the credit accorded never runs more than a point or two over that of the deposits, since in all societies the services of the officers are gratuitous and the managerial expenses slight.

The rural credit societies are very unequally distributed

geographically. One-half of them are in northern Italy. In the center there are only about 240, in the south 190, and on the islands 436. One bank has over 800 members, a few have 100 or more, but the average membership is between 40 and 60. Assuming for each bank 100, the total number of members would be 209,400, a goodly army, but only a small portion of the more than 9,000,000 farmers of Italy.

The number of rural credit societies is largest where the population is most enlightened and thrifty. The backwardness of agriculture in central, southern and insular, as compared with northern, Italy, is a subject in which the Government has long manifested deep concern. In applying the remedies devised, state aid has been resorted to in order to stimulate private initiative, and as a result there is much state-aided cooperation in those regions. The Italian constitution allows special laws to be enacted for any person or class or for any part of the country, and Parliament began to exercise this right at an early date in behalf of agriculture.

The first legislation strove to adapt existing institutions to the needs of farmers and to give them greater commercial credit facilities, but the Government eventually became imbued with the spirit of the cooperative movement and now all its projects are based on the encouragement of cooperation. Eight central institutions or systems have been created by special laws for the central and southern mainland and for the islands. The outstanding credit accorded by these concerns to farmers amounted in 1912 to \$7,200,000, most of which was distributed through local cooperative associations, in accordance with the preference expressed by the laws. It is necessary to cite only the more important of these laws. In 1901 the Bank of Naples was instructed to apply up to one-fifth of its savings deposits in short-term personal loans to farmers in its province and in Sardinia, preferably through associations of a cooperative character. In 1902 the Agrarian Credit Institute of Latium was created for the province of Rome. The Government obliged the savings banks of Milan and Rome to make it donations of 300,000

and 200,000 lire, respectively, and the Bank of Italy to advance to it 500,000 lire. Thus it started with a working capital of 1,000,000 lire or about \$200,000. The Institute can transact business only through cooperative associations, with the exception that it may deal directly with the farmers in places where no such associations exist. Loans must be repaid within one year unless they are granted for the purchase of livestock or machinery, in which case they may run for three years. The credit is usually accorded by discounting bills passed through the rural banks or cooperative associations. The central and intermediary institution may each charge one per cent. The rate to the individual farmer never exceeds by two per cent the rate of the Bank of Italy. A certain percentage of the annual profits is given by way of interest or dividends to the banks which supplied the Institute with its capital, and the rest is set aside for the reserves. Attached to the Institute in 1911 were 109 associations with over 20,000 members, and it furnishes a large portion of the money which is used in the province for agriculture. The amount of loans which any association is permitted to have outstanding with it is limited to \$4,000.

In 1904 the Provincial Bank for the Basilicata, with headquarters at Potenza, was created with a fund of \$400,000 advanced by the state for 60 years, free of interest during the first decade and after that bearing interest at two per cent for the next five years. In addition, it was given all the unwooded lands belonging to the state and all the lands which it might reclaim along the rivers in the province. This bank may extend both short- and long-time credit, either directly to the farmers or through the agricultural consortiums, *monti frumentarii* (public granaries), rural banks, and cooperative associations. Interest on short-term loans must not exceed four per cent, and on long-time loans, 2.5 per cent. The latter are given for acquiring or improving small homesteads, and cannot run for over 50 years.

In 1906 the Victor Emanuel Bank was created for Cosenza, Catanzaro and Reggio. It was endowed by the state with about \$400,000, or one-half of the taxes on the lands

in those provinces during a certain length of time. It may grant both long- and short-time credit, but its principal object is to make cash loans to the farmers through the usual intermediaries. The interest rate cannot exceed five per cent. In the same year an agricultural department was established in the Bank of Sicily for making short-term loans, preferably through cooperative societies, and \$600,000 of its own funds and \$400,000 from the Bank of Palermo were set aside for this purpose.

In 1906 also the Government created a provincial agricultural credit bank in each of the Neapolitan, Sicilian and Sardinian land register districts, with the exception of the provinces of Potenza and Naples. These banks, which number 18, were endowed by the state with \$2,765,353. The savings banks of the provinces were compelled to advance this money, successively in proportion to needs, in the form of loans, now reduced to 25 years at 3.5 per cent. The savings banks are being repaid out of the land tax, a certain portion of which was set aside for this purpose. The objects of these provincial agricultural banks are to make short-term loans for distinctively agricultural purposes. In 1911 they were placed under the management of the savings-bank department of the Bank of Naples and the agricultural department of the Bank of Sicily. The latter bank was empowered to use one-fourth of the endowment of the agricultural banks entrusted to its care in loans to cooperative societies. Furthermore, it may use one-tenth of the net profits of each bank in giving prizes to encourage agriculture. Two experienced farmers must be made members of the discount committees of all branches of the Banks of Naples and Sicily which do business with the agricultural banks. This system is under the supervision of the Ministers of Agriculture and Finance.

In 1907 the two *Casse Ademprivil* of Sardinia were converted into provincial agricultural credit banks for that island, and granted a loan from the state of \$600,000 for 50 years at two per cent interest beginning in the tenth year. They were given also a sum equal to one-half of the tax on

land as registered in 1905 in their districts; and they were authorized and instructed to make with these funds and their own capital, short- and long-term loans to farmers through cooperative banks and the other intermediaries mentioned above. The rate of interest for short-term loans is limited to four per cent, and for long-term to 2 5 per cent.

"Ademprivili" comes from the word "ademprivo," which is the Sardinian name for a form of servitude, formerly existing on certain lands irrespective of ownership. The servitude consisted of certain rights of use, such as the right to cut wood in forested land, to pasture cattle or sheep on cleared lands, to sow grain in rotation with pasture, etc. The lands burdened with this servitude were known as "beni ademprivili." From this is derived the name of "Cassa ademprivile," given to a bank which advances money to the lessees of ademprivile lands and to cooperative societies for the purpose of buying cattle, agricultural implements, fertilizer, and other necessities for the improvement of agricultural properties. The Cassa Ademprivile of Sardinia has two autonomous sections or Casse, one at Cagliari and the other at Sassari, which are the chief towns of the provinces of the same name. The Cassa makes advances either in money or merchandise to the "monti frumentarii" and "numarii" in amounts not exceeding \$1,930 each; to the Casse Agraria, or local agricultural banks, for amounts not larger than their capital; and to the Consorzi Agrarii, or cooperative rural societies, for amounts determined in each case by the directors of the Cassa Ademprivile. In 1913 the advances made by the Cassa for agriculture through its section at Cagliari amounted to \$398,933, and through its section at Sassari to \$268,793.

In 1910 an agricultural credit institution was created for the Marches of Umbria, with a fund of \$140,000 of which the state contributed \$40,000 and the savings banks of Milan and Bologna the rest. In 1912 an agrarian credit institute similar to the one in the province of Rome was founded in Liguria with \$100,000 donated by the state. Other funds will be supplied it by the savings banks within its territory. There is now on foot a project for establishing a national

bank for coöperation and labor to operate under the auspices and with the assistance of the state. The project has been approved by the present administration.

None of these various central banks which the Government has set up for central, southern and insular Italy is allowed to do business with the farmers directly if there are any rural banks, consortiums, or agricultural bodies either of an incorporated or cooperative form to serve as intermediaries, and all are expected to encourage the formation of such intermediaries, particularly of the cooperative kind, while they have the right to inspect and supervise the reorganization, if necessary, of those with which they have dealings. These central banks are, in fact, the official organs of the Government for introducing cooperative credit among poor or ignorant farmers who lack the standing and initiative to help themselves. Several of them were called into existence and endowed with public funds in consequence of earthquakes, pests and plagues which devastated wide areas, and they assisted, it is true, all who applied until normal conditions were restored. But usually they give preference to the smallest loans offering the highest security. The Banks of Naples and Sicily are allowed considerable discretion, but strict rules for according credit have been laid down for the rest. In Liguria, for instance, the maximum loan is \$600 for three years. The money may be used only for the purchase of livestock, implements or machinery. Loans of \$200 may be granted for two years for the purchase of fertilizer or for the necessities for planting biennial crops. Loans for the same amount may be granted for only one year for other purposes of cultivation and harvesting. It will be seen that these state-aided banks of Italy are not for large or well-to-do farmers.

CHAPTER XXVI

THE DUAL MONARCHY

Conditions in Austria—Early Cooperative Movements.—Schulze-De-litzsch Banks and Raiffeisen Credit Societies in Austria—German Federation of Austrian Agricultural Cooperative Societies.—State and Provincial Aid—Conditions in Hungary—Early Cooperative Movement and Count Karolyi—Hungarian Central Society for Cooperative Credit, the Centre—Organization, Duties and Privileges.—Success and Failures of Hungarian Credit System—Three Types of Cooperative Organization Independent of the Centre.

AUSTRIA-HUNGARY is divided into 18 provinces called "crown lands," 14 of which lie in Austria and four in Hungary. Some of them are coterminous with the ancient kingdoms, duchies and principalities out of which they were created and are autonomous in regard to their internal affairs.

In Austria at least eight different languages are spoken, but the Slavonic races comprise about one-half and the German race about one-fourth of the 28,000,000 inhabitants. The latter is most numerous in Upper and Lower Austria, Salzburg, Styria, Carinthia, and the northern part of the Tyrol. Austria is distinctively agricultural and over one-third of its population are farmers; consequently the agrarian element is strong in politics but not always harmonious because of this racial diversity. Its particular industry is territorially unequally developed. In some regions covered entirely by large estates of 25,000 to 40,000 acres agriculture has not attained to modern standards, while in others where the land is broken up into very small holdings it has almost reached perfection. All this explains the irregular grouping of agricultural associations according to nationalities instead of along geographical lines, and also why the Government,

yielding to the preponderating influence of the farmers, has done so much for agriculture.

The farming classes until 1848 were serfs bound to the soil. Their emancipation in that year did very little good, because they emerged from servitude in poverty and ignorance and were utterly unable to adjust themselves to the rapid and enormous development of commerce and industry in the latter half of the last century. Besides there came the competition with producers of cereals and raw materials in America which helped to bring on the universal agricultural crisis in Europe, and the Austrian farmers, at the time ignored by the public authorities and not yet united, either migrated to the cities in large numbers, or else remaining on their farms, eked out a miserable existence between the rapacity of usurers and the cruelty of indifferent landlords. Their condition in most localities was deplorable even up to 30 years ago.

Cooperation is claimed to be of ancient origin in Austria. Coöperative dairies of a rudimentary sort have been traced back as far as the last centuries of the Middle Ages. The present cooperative movement, however, did not begin until around 1850. It made its appearance in the form of mutual aid societies and later in the form of societies for collective purchase of a peculiar kind afterwards reconstructed on English principles. Associations for credit were created at Klagenfurt in 1851, at Aussig and Schoelnde in 1853, and at Vienna in 1855. But these were mixed societies in which benevolence was a prominent feature. Cooperative credit of the pure type was not introduced until a considerable time after its marvelous effectiveness had been proved in Germany, although Austria belonged to the German Confederation up to 1866 and lay near to the kingdom of Prussia where Schulze-Delitzsch and Raiffeisen were doing their work.

The first Schulze-Delitzsch bank was opened in Austria in 1858. At the end of 12 years there were 943 of these institutions, most of them exact copies of the original. In 1913 there were 3,599, of which 603 had unlimited liability. The majority of the Schulze-Delitzsch banks are in the

northern provinces of Bohemia, Galicia and Moravia. They are grouped by region or nationality into federations which embrace societies for all cooperative purposes. The first societies formed joined the German union which Schulze-Delitzsch established at Weimar, but they dissolved this alliance in 1872, and under their leader Ziller founded the Federation of Schulze-Delitzsch Societies of Austria. This Austrian Federation is modeled precisely after its German prototype. It has seven unions, four of which consist entirely of credit societies, but although national in its scope it has not brought into its fold much more than one-fifth of the credit societies in existence.

About 500 of the Austrian Schulze-Delitzsch banks are exclusively agricultural and many of the rest have farmers among their members. No statistics have been compiled showing the exact amount of agricultural business done but the figures must be large. Nevertheless, all these banks operate along urban lines, having shares of a size even greater than that of their German prototypes and extending credit mainly by accepting and discounting bills running for three months or less.

The first Raiffeisen credit societies in Austria were founded in 1886. The date, however, is disputed. A Gallician report to the convention of the International Cooperative Alliance fixes the year as 1880, and Louis Durand at 1887, while others assert that a society of this type was started in Moravia in the early sixties. Be that as it may, there were two known societies at the end of 1886, 31 in 1888, and 182 in 1890, and then they began to increase by leaps and bounds. Five years later there were 1,028, while the official statistics for 1912 show 7,991, with a membership exceeding one million. In 1910 their business, credits and debits exceeded \$216,000,000, and the interest rate on deposits ran from three to 4.5 per cent, and on loans from four to six per cent. The cost of management is so slight that it does not average over 85 cents per member a year.

The Austrian Raiffeisen credit societies are nearly all rural, although they have many industrials, shopkeepers and

small merchants among their members. The number of members per bank rarely exceeds 150 and is often as low as 20. The deposits, taken from anybody, are so abundant that in nearly every place the banks obtain from this source all the money they need for carrying on their operations; in fact, the amount of the deposits in 1910 exceeded the amount of the outstanding loans. This indicates that while the farmers are willing to trust the societies with their savings, many are still unaccustomed to banking usages, and when they want credit, they prefer to go secretly to their friends or the money lenders rather than let their neighbors know that they are in need of assistance. Hence for lack of other business these rural credit societies have been compelled to invest much of their funds in real-estate mortgages, in spite of the fact that it is contrary to their principles to do so. In Galicia, for instance, over one-half of the credit accorded is for acquiring land, erecting buildings and improving the soil. Such loans run from ten years and are made repayable by instalments. The short-term loans run up to two years and the security exacted is usually the signatures of two indorsers on the note of the borrowing member.

The Austrian differ from the German Raiffeisen credit societies in that the former charge entrance fees, of ten crowns (\$2 45) or under, and in some cases distribute dividends. As a rule, however, any profits not needed for the reserves are devoted to some object of public utility connected with agriculture. They do not teach Christianity, although each society is generally composed of persons of the same faith or race. Moreover, collective purchase is not always a part of their business as it is in Germany. But they have displayed the German aptitude to combine and create a system.

The agricultural cooperative associations of Austria have formed central banks and racial or provincial federations, and nearly all belong to the German Federation of Austrian Agricultural Cooperative Societies. This body, formed in 1897 with headquarters at Vienna, is similar to the German Imperial Federation. Twenty-eight of the 34 provincial fed-

erations and many of the 18 central banks belong to it, and it thus embraces almost 60 per cent of the rural credit societies, irrespective of faith, race or language. In 1911 the most important German federations and central banks founded a general agricultural bank with a capital fixed at \$800,000, with the right to raise it to double that amount.

Thus in Austria there is a great and continually spreading network of little societies encouraging thrift and helping agriculture by gathering up the savings in the rural districts and lending them out to the farmers who have need of credit. In 1910 there was one rural credit society for every 3,647 of the population, excluding Vienna, and the ratio may be somewhat better today. But although this splendid and now indispensable system of rural credit facilities is self-supporting and self-governing, it did not spring entirely from private initiative. Its development is due in a large measure to direct official activity of the Government. "No other country," writes Dr. Ertl, bureau chief in the Austrian Ministry of Agriculture, rather extravagantly, "has looked upon the encouragement of cooperation as such a necessity for agriculture. Austria must be considered as the most notable champion of state aid."

The Austrian Government began its activities in behalf of agricultural cooperation by making small donations to the rural banks in Istria and Dalmatia. It gave them also the privilege of borrowing at the public savings banks. Later on it ordered officeholders from the highest functionaries down to the village schoolmasters to interest themselves not only as campaigners but even as organizers of these little institutions, and supplied them with tracts and literature for expanding the cooperative idea throughout the land. At the first Austrian Raiffeisenist Congress in 1897 the Government took a leading part in bringing about the formation of the Federation, and in the following year made it a grant of \$1,960, which was afterward increased to \$5,880. Since 1901 the Government has had a representative on the board of directors of the Federation and a bureau for credit societies in the Department of Agriculture.

Some of the provinces took steps at an early date to forward the cooperative movement and have been more generous than the national Government in giving actual financial assistance. A few instances may be cited as typical of all. The Diet of Lower Austria made an outright gift of \$50,000 and an advance of \$500,000 to the central bank in the province. In 1903 it paid \$1,350 to the local banks, besides \$5,455 for expenses of the auditors, and in addition a fund of over \$50,000 was deposited with the central bank for lending out to the local banks at two per cent a year. In 1888 this province began to grant sums of \$100, \$80 and then \$60 to new local banks to meet the first costs of organization.

Upper Austria compelled the *Landesausschuss* to lend at least \$40,000 a year to the rural credit societies at three per cent per annum and \$40 without interest to each new society formed. About the same time Bohemia, Bukovina and Carinthia adopted the practice of making advances to the rural credit societies and other cooperative associations, for meeting the first costs of organization, supporting their unions, conducting inspections and diffusing information. Galicia in 1899 placed \$400,000 at the disposal of the rural credit societies, in addition to loans previously made. It also assumed the cost of creating a central agency for the banks and a part of the expense of forming new societies, to say nothing of the money spent in propaganda. In Istria, Moravia, Silesia, Salzbouurg, Styria, the Tyrol and Voralberg, money was appropriated soon after the movement began, for making loans without interest to the local societies and for giving them the necessary inspection, instruction and information.

The course of intervention which gave impetus to the agricultural cooperative movement in the beginning in Austria has been continued down to the present time by the national and provincial governments. Although the Schulze-Delitzsch banks have persistently refused all state aid, the rural societies have always been willing recipients of it. Today the latter enjoy exemptions or reductions in respect

to certain taxes. They are allowed the free use of the mails in their correspondence with the Government. They are using about \$200,000 advanced by the national Government and other large amounts from the provincial governments. Each new credit society that is formed may receive a \$60 loan, while all are benefited directly or indirectly by the appropriations made from the public funds for propaganda and administrative purposes, for carrying on inspection and investigations, for giving instruction to cooperative officers, and for disseminating information for stimulating cooperation. If a bill for the establishment of a national bank for cooperative societies which is now before the Diet is passed, they will also obtain their proportionate share in the advantages to be derived from the \$1,200,000 with which the Government proposes to subsidize it.

The cooperative societies of all types in Austria are regulated by the law of 1873, as amended by the law of 1903, which requires every society to submit to a biennial audit by the provincial authority or by the Federation if this duty is entrusted to it by the province. The law permits limited liability and joint and several unlimited liability. The administrative organs of a society are similar to those in Germany, with the exception that the board of supervision is optional.

In the space of 36 years 3,660 Austrian cooperative credit associations out of a total number of 15,953 have disappeared. Bankruptcy was the cause in only 249 of the cases.

The four provinces or crown lands of Hungary comprise the autonomous kingdom of Croatia-Slavonia, Hungary proper, the principality of Transylvania, and the territory known as the Military Frontier on the Balkan border. There are as many different races and languages in Hungary as in Austria, but the Magyars predominate, representing twelve millions of the 20,886,787 inhabitants (1910). About 70 per cent of the population are farmers. Agriculture is backward although the soil is rich and fertile, but year by year it is being bettered by means of cooperation.

Family cooperative societies have existed in Croatia-Slavonia from time immemorial and are still numerous, while friendly societies appeared in various parts of the country about the middle of the last century. The first was the Savings and Aid Bank established at Bezsterce in 1851, and the second a similar institution established at Kolozsvár in 1858. In the sixties seven Schulze-Delitzsch banks were formed in Transylvania by some small Saxon manufacturers and "annual societies" were started in the trans-Danubian districts. The latter are credit associations in which the shares are issued in annual series and are matured by monthly instalments paid for six years. The first of these was formed at Győr in 1864, and the second at Pécs in 1866, and later on others appeared at Szekesfehervar, Komárom, and elsewhere. The society at Pécs is still running. Officials in the Hungarian civil service organized a union on the friendly-society plan in 1864, which was transformed into a cooperative society in 1869. The Pesth Savings and Loan Society was formed for this union eight years after. Counting all these types there were 102 cooperative banks and credit associations in 1870 and by 1885 their number had increased to 398. Their combined business was heavy, but with the exception of the Austrian and Slavonian family cooperative societies, which are not banks, their members were industrials and persons living in the towns or cities.

Cooperative credit as an organized important factor did not make its appearance in the agricultural life of Hungary until after the International Agricultural Congress held at Budapest in 1885 under the presidency of Count Alexander Karolyi. Many notables attended this Congress, and Raiffeisen was its particular theme. Leone Wollemborg told of what was being done in Italy, and Endre read a letter from Raiffeisen himself and in an impassioned address declared that the plans of the great father of German rural cooperative credit were the only way by which the Hungarian peasants could be rescued from the thralldom of usury and the miserable condition into which they had fallen.

The discussions at this Congress and the information im-

parted inspired Dr. Charles Wolff, who a little while before had begun to study the subject, to renew his efforts to get the Saxon farmers of Transylvania to form Raiffeisen societies. But most important of all, it awakened a deep and abiding interest in the wealthy and powerful Count Karolyi, who immediately resolved to undertake the huge task of making men out of the downtrodden, apathetic and ignorant Hungarian peasants through the instrumentality of cooperation. From that day on he strove with all his energies to accomplish this task, and he was soon recognized as the apostle and foremost leader of cooperation in his country, and justly so, because it was through his influence and munificence that a system for associated action was established for the farmers of Hungary. He was ably assisted by Ignatius Daranyi, Minister of Agriculture, and by Stephen Bernat, the founder of the cooperative press, whose brilliant talents as a writer did much to arouse and direct the enthusiasm which brought the movement to success.

Count Karolyi started the movement by inducing the county of Pesth Philis-Solt-Kiskun to found a County Credit Association of the Raiffeisen type. The county and prominent landowners subscribed to 800 founders' shares of \$75 each. This association helped to form numerous local credit societies within its confines, and in 1894 extended its sphere so as to include contiguous territory, especially in Transylvania. It was succeeded by a bank with a national scope which it founded in 1896 with aid of the largest savings bank in the kingdom. The work of Dr. Wolff also began to show results about this time, and with the aid of a savings bank he formed a regional bank and a number of local credit associations of the Raiffeisen type in the Saxon villages of Transylvania. Another independent movement was started later on in the district between the Drave and the Save.

In 1898 there were 465 credit societies in Count Karolyi's system and 796 belonging to other groups or scattered throughout the country. Some of the latter were cooperative only in form and had been organized by usurers to decoy the unwary into their clutches, a trick always possible where

the laws do not limit the rate of interest to be charged, or the number of shares any one member may hold, or the amount of dividends that may be distributed. As for the rest, they were practically all formed by public-spirited men through the higher organizations created for that purpose, and were kept going by the easy money supplied by such men, by the savings banks, or by the counties in which they were located. The few that were formed by members themselves were located in the cities or in the German settlements.

Everywhere else progress was made under difficulty and frequently halted whenever the leaders relaxed their grip, because the peasants, through their ignorance and their distrust of innovations, were utterly unable to appreciate the work being done in their behalf. But these 1,200 or more spoon-fed credit societies were accomplishing wonders in abolishing usury and in transforming their members into useful citizens by furnishing them with the necessary funds for earning a decent living. This proof of their worth inspired newspapers, savings banks and many rich philanthropists to encourage their growth, while Count Karolyi by exerting his powerful influence finally induced the royal government itself to become an active propagandist and financial supporter of cooperation in all its forms for the industrial as well as the agricultural classes but more especially for the latter, a course which it was easily prompted to take because at that time the socialists whom it wished to combat were stirring up a feeling of unrest among the farmers. Socialism invariably vanishes when cooperation appears.

Accordingly, in 1898, by virtue of a law enacted in that year, a state-conceived and state-endowed institution, called the Hungarian Central Society for Cooperative Credit, was established to serve as a bank and a propagating organ for cooperation for industrial and agricultural classes alike throughout the kingdom. All the cooperative credit societies affiliated with this institution are accorded privileges and subjected to regulations of a special nature which make them entirely different from the societies formed under the coop-

erative law of 1875. This old law, which allows both limited and unlimited liability, was not disturbed, and cooperative societies may still operate and be formed under it if they do not wish to avail themselves of the advantages offered by the new law and the institution created by it, but they enjoy only a few privileges

The Hungarian Central Society for Cooperative Credit supplanted the central bank and took over all the local societies of Count Karolyi's system. It was modeled after the Hungarian Land Mortgage Institute and one of the arguments advanced to obtain the charter was that the latter concern and the National Small Holdings Land Mortgage Institute had not been of much use in financing the small and medium-sized farmers. This new institution, popularly known as the Centre, is not cooperative, but its capital stock is variable and may be increased indefinitely. At the start it was \$742,350, of which the King subscribed \$12,250, the state \$245,000, and private individuals and corporations the rest in shares of \$245 each. These are styled founders' shares, and they will be repaid from a sinking fund being created for that purpose out of a certain portion of the annual profits. Every affiliated society must subscribe for at least one share of \$49, the liability on which is thirty times that amount. Dividends are limited to four per cent a year.

The president of the Centre is appointed by the King upon advice of the Minister of Finance. One vice-president, two members of the board of directors and one member of the committee of supervision are appointed by the Minister of Finance, and the manager selected by the directors from among themselves is subject to his approval, while all the affairs of the Centre are under his control and supervision, carried out by a special government commissioner who has power to stop action on any resolution of the board of directors pending his decision. The second vice-president is appointed by the Minister of Agriculture. The board of directors, with the exception noted, and the committee of supervision are selected at a general meeting of the holders of founders' shares, in which the affiliated societies may not

vote directly but may be represented in groups of delegates in a way similar to that provided for borrowers in the Land Mortgage Institute.

The powers and duties of the Centre are to supply banking facilities to agricultural and industrial coöperative societies for credit; to assist small holders in obtaining long-term loans; to found cooperative societies, to prepare models of by-laws and rules for the carrying on of their business, and to supervise and control such as are affiliated with it; and finally to promote the intellectual, moral and material welfare of workmen and farmers, especially by encouraging the practice of cooperation. It may establish agencies and has been compelled to maintain them in Croatia and Slavonia.

Certain privileges have been accorded the Centre to enable it the better to perform its duties. It is exempted from the payment of commercial taxes and certain stamp and other duties, and it has the free use of the public mails. The state has given it some hundreds of thousands of dollars credit at low interest rates, and it may borrow from and rediscount the paper of affiliated societies at all the other Hungarian moneyed institutions. It may receive deposits, ordinary and on current accounts, but not savings, and moreover may issue debentures free of all taxation and legally usable as investment for trustee funds. These debentures are based on the notes of individuals, indorsed by the societies of which they are members and secured by a fund equal to one-tenth of their face value and by a special guaranty fund of \$735,000 contributed by the state. To this security must be added the liability of the Centre and affiliated societies.

Cooperative credit societies organized under the law of 1898 and affiliated with the Centre must conform their articles of agreement or by-laws with the models prepared by that institution. The liability of members is limited to five times the amount of the shares subscribed. This liability can be enforced by third parties only in bankruptcy, but the society itself can levy equal assessments up to its full extent

against members to meet any losses not covered by the reserve. The shares cannot be for over one hundred crowns (\$24.50), and may be paid up by monthly instalments running for five years. Dividends in excess of five per cent per annum are forbidden. Any surplus is carried over to the reserve. At least ten per cent of the profits must be put into the reserve each year until it equals half the total of the share capital. Members may withdraw on six months' notice to take effect at the end of the year. None may have more than one vote or cast that vote by proxy.

The Centre has the right to appoint one member each on the executive committee and board of supervision of an affiliated society. The managers may be allowed ten per cent of the profits but no other form of compensation. The Centre inspects the society at least twice a year, and may force it into bankruptcy if its affairs are unsatisfactory. The costs of the inspection are charged against the society or borne by the Centre. At present the Centre assesses the societies for this purpose.

A cooperative credit society cannot extend its operations over more than two adjacent communes, and it usually confines itself to one commune. Its objects are to receive deposits from all sources and lend to members only. In addition to supplying the credit needs of members, many of the agricultural credit societies buy machines for sale or rent, keep breeding cattle, or undertake to sell supplies of members or maintain warehouses for the storage thereof. A cooperative credit society has the same tax exemptions as the Centre, but its greatest privilege is that it has a lien on all the movables of a borrowing member which precedes that of any other of his creditors after he has been once admitted to membership.

When the capital, reserves and deposits are not sufficient for the needs of its members, an affiliated cooperative credit society may then resort to the Centre for help and borrow directly or discount the paper of its members at that institution. But the amount of the credit obtainable from this source is usually limited to the face value of the shares sub-

scribed by members, plus twice what has actually been paid up thereon and the total of the deposits and sums invested by the local society with the Centre. The rate of interest charged by the local must not exceed that of the Centre by two per cent except in extraordinary cases. The Centre's rate is usually from one-half of one per cent to one per cent higher than that of the Austro-Hungarian Bank, so the rate to the individual member fluctuates between six and seven per cent.

The credit extended by a local cooperative credit society may be for either short or long term. Short-term credits are acceptances or discounts of three-months' paper, or notes running for five years or under. Liberality is shown in allowing renewals upon condition of making small partial payments. But security is always required and the money borrowed must be used for some specified productive or provident purpose. The articles of agreement of each society must fix the maximum for the credit which may be accorded to any one member. This rarely goes beyond 15 per cent of the society's paid-up capital. The long-term loans may run from 10 to 50 years and be repaid either by instalments, amortization or in lump. Such loans are granted only to small holders on mortgage, and usually for the purpose of lifting a more burdensome prior encumbrance or for acquiring or improving a homestead. Seventy-five per cent of the appraised value of the property is allowed. Such loans are not made with the society's own funds, but in the following manner. The loan is split into a first mortgage for 50 per cent of the value of the property, and into a second mortgage for 20 per cent of the value thereof. Both are assigned to the Centre, which reassigns the first to some mortgage bank, and retains the second to be used as security for its debentures. During recent years the real-estate loans have usually been turned over to the National Land Credit Institute for Small Holders and the National Federation of Land Credit Institutes, mentioned in a previous chapter.

In 1912 the capital of the Centre was roughly \$1,632,900; its reserves were \$332,413, deposits \$7,532,392, and debentures in circulation \$9,138,850. The affiliated societies num-

bered 2,412, of which 226 were industrial and all the rest agricultural. Their combined paid-up capital was \$41,436,500, reserves \$11,355,400, and deposits \$29,845,475, and the amount of the credit accorded to their 665,333 members, including the discounts of the Centre and the long-term loans taken by the mortgage banks, amounted to over \$75,000,000. These mortgage loans were for sums rarely exceeding \$1,000, while the average size of the bills accepted or discounted was \$75. Bills as small as 50 cents were discounted, all of which shows that the business done is confined to the small folk, as it was intended that it should be.

The success achieved by this Crown-devised and state-aided cooperative credit system of Hungary was a surprise even to those who conceived it. The system was established purely as an experiment, but it now covers 7,777, or over one-half, of the parishes of Hungary. It has stamped out usury and revived agriculture within that area, and has given a strong impetus to the cooperative movement which is now spreading throughout the land. But it has defects and shortcomings which are becoming more apparent with time.

The intervention of the state has deadened the spirit of self-help. The arrangement which deprives the farmers of direct representation in the management of the Centre and even compels them to accept persons not of their own choosing for certain offices in the local societies, violates the important principle of coöperation and retards the development of individual independence. Great numbers of the societies have been formed and are managed by the priests, teachers, notaries or large landowners in the neighborhood, and the members have no mutual feeling for one another but join simply with the object of benefiting themselves alone. The artificiality arising from this outside control has created distrust of the system in banking circles. Coupled with this distrust is the enmity aroused by the official favoritism displayed and the class legislation enacted for farmers, and as a result the Centre, which is now mostly agricultural, finds difficulty in negotiating its debentures and rediscounting the

paper of the local societies. Indeed, the system is badly in want of money for extending its activities, and the Minister of Agriculture recently acknowledged that unless it can attract more deposits or establish better relations with existing financial institutions, the state will have to be called upon for further assistance.

The law of 1898 authorizes other bodies, such as county councils, chambers of commerce and industry, and public agricultural corporations and associations, to form local credit societies. But by common consent the organization of coöperative credit under this law has been left to the Centre. There are in Hungary, however, quite a number of coöperative credit societies which are entirely independent of the Centre. Most of them were formed before that institution came into existence, and except for a few scattered here and there, they belong to three distinct groups. The first group consists of the 176 credit societies of the Raiffeisen type, six wine-vault societies, and 48 supply societies connected with the savings bank at Nagyszeben, Transylvania. They have 18,000 members and a capital of about \$4,000,000. The second is the Servian Federation at Zagrab, with 334 societies. They are chiefly engaged in acquiring leaseholds for allotment among members. The third comprises the 252 Raiffeisen societies with 38,000 members affiliated with the Croatian Agrarian Bank at Zagrab.

CHAPTER XXVII

BELGIUM, HOLLAND, LUXEMBURG, DENMARK, SCANDINAVIA, AND SWITZERLAND

Cooperative Credit Early Devised in Belgium—Credit Union of Brussels.—Farmers Not Benefited—Comptoir Agricoles and the General Pension and Savings Bank—The Boerenbond—Syndicates—Village Associations in Holland—The Catholic Church—Eindhoven Central Bank—Central Banks at Utrecht and Alkmaar—High Degree of Cooperation in Luxemburg—State Banks—Cooperation for Buying and Selling in Denmark.—Government Encouragement of Rural Credit Societies—Mortgage-bond Companies of Norway—Early Cooperative Associations for Sweden—Raiffeisen Societies in Switzerland—Swiss Union of Raiffeisen Banks—Small Banks and Ample Credit.—Cattle-purchasing Commissions of Thurgau

POPULAR credit with cooperative features was devised and introduced in Belgium before Schulze-Delitzsch and Raiffeisen had thought of the idea of using self-help instead of charity as a means of rescuing poor people from their poverty. In 1848 François Haeck organized the Credit Union of Brussels, "without capital stock, shareholders, dividends or lucrative object," for the purpose of discounting the paper of commerce, industry and agriculture and workers therein and procuring for them the money they needed up to the limit of their "moral and material worth" But this Union deviated from its original spirit and Belgium lost to Germany the honor of being the birthplace of cooperative credit on the Continent.

The Credit Union of Brussels is composed entirely of borrowers or prospective borrowers each of whom has but one vote. It is managed by a board of directors, the usual staff of officers, a committee on membership and a discount committee. The social fund is variable and illimitable, but must

never fall below \$200,000 It is created by subscriptions of persons desiring to obtain credit The lowest subscription is \$100 The maximum is not fixed but must correspond exactly with the amount of the credit granted or to be opened for each member. Five per cent of the subscriptions must be paid in cash and the rest is subject to call. When the losses of the Union exhaust the reserves and one-fourth of the paid-in share capital, each member must pay his proportionate assessment to the Union Beyond this there is no liability. The admission of a person to membership establishes his right and the extent thereof to credit, but he is required to furnish adequate security, real or personal A member may hold more than one share, within limit as to number and value determined by the board of directors. This limit extends in some cases to thousands of dollars.

The principal operations of the Credit Union of Brussels are discounts and rediscounts, the purchase of commercial paper, the receiving of deposits and accounts current, executing orders for the purchase or sale of investment securities, and making loans on collateral All these operations except discounting may be carried on with outsiders. Deposits may be invested only in paper maturing in 100 days. The Union may issue bonds with fixed time for payment, but the amount in circulation must not exceed one-tenth of its share capital. The notes or bills presented by members for discount must not be longer than three months. Loans on collateral may run for 100 days The interest rate follows that of the National Bank, increased usually by one-fourth. This extra interest may be distributed among the members as a rebate. Long-term loans were granted by means of repeated renewals of notes down to the year 1877, but the practice is not now allowed. The profits of the Credit Union of Brussels are disposed of thus. first, an amount determined by the management is put into the reserve which must always be maintained at a minimum of \$5,000, and then a five per cent dividend may be distributed; of the balance 20 per cent is paid to employees, five per cent to a sanatorium, and 75 per cent goes either into the reserve or as an extra dividend. In 1910

the Union had 5,232 members and a capital of \$14,207,600. Its discounts and rediscounts amounted to \$50,923,600, its loans to \$5,258,400, and its deposits and accounts current to \$5,270,400. A five per cent dividend was declared in that year.

There are now six credit unions in Belgium and a number in France and Switzerland, but none is important except the one at Brussels, while all have ignored the farmers and even the small people in the cities. Their business comes mainly from the better class of traders and merchants. The exclusion of the farmers is due to the fact that no long-time loans are granted. The exclusion of small folk results from placing no limit on the size of the shares or the amount of dividends which may be declared. Nevertheless the plan of organization and operation of the credit unions is a good one. It is based on credit capital, or the use of character and financial standing instead of cash capital, as the means of obtaining and guaranteeing the funds needed by members. The credit union is of very ancient origin, dating back to the Middle Ages before corporations were devised and when banking was done individually or by groups of men. It has always proved safe and effective where men are honest and capable, and the Central Society of Agriculture of Belgium was inclined toward this method around 1870 and gave serious consideration to a project submitted by Mr Haeck for the establishment of an elaborate system of credit unions composed entirely of farmers to be located in the chief cities of all the cantons.

This project, however, came to naught. Cooperation in its true form had made its appearance about a decade previously and eventually became recognized as the best means for financing farmers. The first cooperative credit society in Belgium was formed by Leon d'Andrimont at Liège in 1864. In 1865 others were formed at Verviers and Huy, in 1866 at Gand, and in 1869 at Namur and Saint Nicholas. In 1873 the first Belgian law on cooperation was enacted, which, as amended in 1886, is still in force. In 1875 coöperative societies were exempted from various stamp duties,

taxes, and registration fees. A few more societies were then formed, and all the existing institutions were grouped into a federation under the presidency of Mr. d'Andrimont. These cooperative credit societies were of the Schulze-Delitzsch type. They have now dwindled down to about 45, of which two, at Goe-Limburg and Argenteau, respectively, are mainly agricultural. In 1910 the first had no transactions, while the second made only 43 loans to farmers of a total of only \$11,283.

The failure of the credit unions and of the people's or Schulze-Delitzsch banks to extend their operations to farmers led the Government to intervene in 1884 to provide other facilities for them. In that year a law was passed with the object of making the General Pension and Savings Bank the financial head for agriculture by enlarging the powers of the concern under its original charter so as to permit loans to or through a new kind of institution called "*comptoir agricole*," brought into existence by virtue of this law. A *comptoir* is a body of at least three persons whose sole object is to guarantee loans granted to individual farmers by the General Pension and Savings Bank. In other words, it is, as its name implies, a subsidiary agricultural counting-house of the Bank, and hopes were entertained that through its operation as a local agency, the Bank would be able to make advances in safety and abundance to farmers throughout the country.

This idea of covering the country with local *comptoirs* attached to a central bank was evidently suggested by the abandoned project of François Haeck, although there are vital points of difference between a *comptoir* and a Belgian credit union. Unlike the latter the *comptoir* has no cooperative features whatever and does not confine its services to members. True, farmers might form a *comptoir* to guarantee loans made to themselves or to one of them but this has never been done. These counting-houses are formed by persons connected or at least in sympathy with the General Pension and Savings Bank, with the aim of protecting its interests and obtaining the fees it allows. The fees are a

del credere commission, that is, paid by the creditor to intermediaries for assuming responsibility for the money lent. This commission is now three-fourths of one per cent a year on the amount due on the outstanding loans, a compensation rather small for doing all the work, assuming all the expenses and standing responsible for all losses incurred in a loan or banking business consisting of small sums and many details, and this is perhaps the reason why practically only long-term mortgages are now taken. In 1894 the powers of the General Pension and Savings Bank were again extended so as to permit it to make loans to cooperative societies, and the Bank thereupon set aside \$200,000 to be lent at $3\frac{1}{4}$ per cent to cooperative credit societies which should be affiliated with their own central banks.

Nineteen *comptoirs agricoles* have been formed, 15 of which still subsist. They had indorsed only \$2,757,146 to the end of 1910. The loans were for sums between \$200 and \$10,000, all amply secured. The larger ones ran for 30 or more years and were reducible by annuities. The interest charged borrowers was 5 5 per cent and the bonds secured by these loans bore interest at 3.6 per cent.

The General Pension and Savings Bank is gradually losing its importance in cooperation. The credit societies and central bank of the Boerenbond have no relations with it, while most of the credit societies belonging to other federations have ceased to depend upon it because they are able to obtain all necessary funds through their own central banks. The 218 credit societies, indeed, had credit accounts with it to the amount of \$181,316 in 1910, but had drawn against these only \$48,273.

The extension of the powers of the General Pension and Savings Bank so as to enable it to aid agricultural cooperation was granted upon its own request inspired by a Catholic priest, Father Mellaerts. In 1890 Mellaerts organized the Boerenbond, or Peasants' League, for the guidance of Belgian farmers in their religious, moral and material affairs, and under its auspices he founded at Rillaer in 1892 the first Raiffeisen bank in Belgium. The good accomplished through

his enthusiasm and untiring energies soon brought him to the attention of Mr. Mahillon, the president of the Bank, with the result that Mr. Mahillon induced the Government not only to make the changes in the powers of his bank, but also to appropriate a fund so that the Belgian Department of Agriculture could pay the cost of inspection and most of the organization expenses of the rural credit societies. Twenty-five dollars is now given to each new society duly registered and five dollars to central banks for each local society affiliated with them.

The work then began in earnest, and today coöperative banking has gained a strong foothold in rural Belgium. It has taken the syndical direction which prevails in France, that is, the farmers form *syndicats*, and then as members of these *syndicats* form local societies for credit and other purposes, so that the cooperative activities in every locality are closely knit together. In 1912 there were 272 farmers' *syndicats* with 2,132 adhering societies, nearly all belonging to 49 federations. Among these were 738 rural cooperative societies and seven central banks. The 538 credit societies which rendered reports to the Minister of Agriculture in 1910 had at the close of that year 27,334 members, of whom 5,442 were not farmers. The total of outstanding loans amounted to about \$2,291,014, and the reserves to \$93,831. The deposits with the entire working capital amounted to \$4,582,457. The bulk of the loans were for \$200 and under. The time ran from 100 days up to ten years. Life insurance is sometimes taken for security, but most of the business is done on the indorsement of a fellow member. Mortgages are required for the long-term loans, which are invariably reducible by instalments.

The Belgian laws allow limited or unlimited liability but require share capital and forbid the accumulation of an indivisible reserve. Consequently the rural banks cannot be strictly Raiffeisen, but although they charge entrance fees (usually one franc), they adhere as closely to type as possible by making both shares and dividends small. Many evade the laws further by dividing their surplus into halves. The

first half consists of the profits on loans made out of deposits and the society's own funds, and is retained to be distributed only in case of dissolution. The second half is created partly from the same source and partly from profits on advances received from its central bank, and is held to be turned over to the latter on the same eventuality. Collective purchasing is a common practice with the local credit societies

The local banks affiliate with central banks by subscribing at least one share, usually of about \$20, involving a liability limited to ten times the amount of the share. They obligate themselves to keep all but a few dollars of their deposits with the central bank, and also to submit to inspection by it. The Boerenbond or Peasants' League founded by Father Mellaerts at Louvain, a Catholic organization, has 363, or nearly one-half, of the rural credit societies of Belgium, and all are members of its central bank, which is the largest of the seven. This bank has a land section, financed by bonds bearing 3.6 per cent interest, which lends to farmers on real-estate mortgages through the local societies at 4¼ per cent. But in order to get money for this purpose, a local credit society must subscribe one share of ten dollars for every \$100 advanced to it for use of its members.

Agriculture in Holland is well organized by means of village associations grouped under provincial federations, which in their turn are bound together by a national federation. This system has been established largely through the efforts of the Catholic clergy. In fact it was started by the priests, who have always shown great activity in advancing the economic interest of the farmers and to this end have bent their energies to promote various forms of cooperation.

In 1890 coöperation was little known among the Dutch farmers although a cooperative law was enacted in 1876. To-day it has reached vast proportions. Its development has been directly encouraged by the state working in harmony with the Catholic Church and private initiative. The chief object of the state aid has been the improvement of the breed of cattle and the creation of effective credit facilities.

The first cooperative credit society in Holland was formed at Maasbracht in Limburg on June 15, 1895. The second was formed the following year at Louneker. Both took the Raiffeisen type, as did all societies subsequently formed, and Holland has the largest and purest Raiffeisen system outside of Germany. New societies registered under the 1876 law are allowed \$30 by the state; if registered under the general law on associations of 1855, they are allowed only \$3, when affiliated with a central bank. In 1910 there were 632 local credit societies in Holland, and although nearly all of them owe allegiance to the Federation of Dutch Peasants, they are divided into three distinct groups under the central banks at Eindhoven, Utrecht and Alkmaar, by which they are regularly inspected and supervised.

The Eindhoven central bank was formed in 1896 by the Peasants' Christian League and it requires all members of adhering locals to be Catholics. Its territory lies in the southern provinces. It operates under the law of 1855 as a limited-liability association. Its members are local credit societies and such other societies as may be incorporated for the advancement of agriculture. The shares are \$400, and each adhering society must take at least one and pay in one per cent thereof. After the share has been entirely paid up the liability ceases.

In 1910 the Eindhoven central bank had 283 adhering societies with 21,959 members, all farmers. Its capital was \$222,400, of which only \$2,616 was paid in. The reserves were \$20,000, and deposits \$1,708,145, and all transactions amounted to \$4,183,324. The interest on deposits was 3.25 per cent, and that on loans 3.75 per cent. Its subsidy from the state was \$1,000.

In 1908 the Eindhoven central bank established the Peasants' Cooperative Mortgage Bank with a capital of \$400,000, of which \$80,000 was subscribed by the central and locals. This Bank grants loans at $4\frac{1}{4}$ per cent for 40 years or longer on condition that one per cent of the principal be paid back each year. It finances itself by issuing bonds, and paid in 1910 a dividend of $2\frac{1}{2}$ per cent.

The central bank at Utrecht was organized in 1898. It is undenominational and admits to membership societies whose members are not farmers. It operates principally in that part of Belgium not covered by the Eindhoven bank but in many places they work side by side. In 1912 its capital was \$174,800, of which only \$10,712 was paid in. The shares are \$200. Ten per cent must be paid in on the first share, but on others only ten florins (\$4) need be paid at the time of subscription. The liability assumed on each share is \$1,000. Membership is confined to local banks and agricultural societies and its own officers. Each adherent must subscribe to at least one share and may hold a maximum of ten shares. The maximum of credit which may be accorded is \$4,000 for each share held. In 1912 the Utrecht bank received a subsidy of \$1,360 from the state, and at the close of that year it had 439 adherents with 21,941 members. Its deposits amounted to \$2,601,139, and its outstanding loans to the locals to \$654,636. The interest rate on deposits was $3\frac{3}{4}$ per cent at the highest, and on loans $4\frac{1}{4}$ per cent at the lowest. For adherents which kept no deposits with the bank the rate of interest charged was 5 per cent.

The Alkmaar central bank was founded in 1901 by dissidents from the Utrecht central bank, and occupies the province of North Holland, or a portion of the latter's territory. The 2,466 members of its 32 adhering locals are mostly Catholics. It is a pure cooperative body, with unlimited liability, and all its adherents hold equal shares in the capital and profits. In 1910 its deposits were \$109,943, drawing $3\frac{1}{4}$ per cent, and its loans \$41,062, yielding four to $4\frac{1}{2}$ per cent. The reserves were \$2,772. The subsidy received from the Government was \$200.

The Government assumes all the expense of inspecting each of these banks above \$200 a year. The late statistics of these three central banks are very incomplete, but show that great progress has been made in the past four years.

In the little Grand Duchy of Luxemburg there are only 40,000 farms. Half of them have less than $2\frac{1}{2}$ acres. Of

the rest, 16,000 farms are under 120 acres, and but 185 farms over that area. Cooperation has naturally reached a high degree of usefulness in the midst of such intensive cultivation. Its use, however, is all for collective sales and purchases. There are no cooperative credit societies. Their place is filled by the agricultural and people's banks established by the state.

These state banks serve tradespeople, employees and industrials, as well as farmers, within the areas assigned to them. They came into existence by virtue of the laws of 1900 and 1906. They are formed by the Government upon request of the municipal councils. The credit accorded is strictly personal. A loan over \$200 or for longer than three years can be granted only in exceptional cases, and then must never exceed \$400 for five years. The maximum rate of interest is five per cent. The rate now charged is four per cent. The working funds are supplied by the Savings Bank of the Grand Duchy at a rate which must never exceed four per cent.

The Savings Bank is represented in the administration of every one of these little banks, and in case of insufficiency of securities given for its advances, may demand a guaranty from the municipalities. These banks now number 18. The customers are mostly farmers, but so far very little business has been done. In 1909 the outstanding loans amounted to only about \$25,000.

Coöperation is extensively used in Denmark for collective buying and selling of farm supplies and products and also for long-term credit for both large and small estates. Coöperative credit for short term has made very little progress, although as far back as 1898 the Government intervened directly to encourage its advancement. In that year a law for rural coöperative credit societies was enacted and \$1,340,000 appropriated to be loaned among societies which should be created in accordance with its provisions. As subsidy, however, invariably means state control to a greater or less extent, strict rules and regulations were laid down for the

organization and management of credit societies, and this may account for the slowness of their growth.

A rural coöperative credit society under this law must consist of at least 50 farmers residing in the same county and owning together 500 or more head of cattle. The president is appointed by the county council, and the amount the society may receive out of the appropriation is determined by the Agricultural Commission, which is the official custodian of various public funds. This amount must be somewhere between the values of 1,000 and 10,000 head of cattle, unless the Ministry of Agriculture permits another figure. This advance from the state originally bore three per cent interest and was required to be repaid in 1908, when it was intended that the entire appropriation should be recalled and the societies left to stand on their own feet. But in that year the law was amended so as to provide that only two-tenths of the loan should then be repaid and one-tenth each year thereafter from 1909 until 1916, unless otherwise provided by law. In consideration of giving this grace, the rate of interest was raised to $3\frac{1}{2}$ per cent and the societies were enjoined against charging more than five per cent to members.

The sole object of the societies formed under the 1898 law is to guarantee the return to the state of the moneys which were advanced by it and to see that they are put to their proper use. All members are jointly and severally liable to the state. Loans may be granted only to members and for meeting urgent and necessary expenses for wages, buying seed, fertilizer and supplies, and the upkeep of the farm and live stock. No security is allowed to be taken. The financial standing of a member is determined by the registered cattle he owns, and the extent of his credit is \$13 40 per head. The officers receive no compensation, and all gains are placed in the reserves, which may be used for loans on the same terms provided for those made from the state subsidy. According to the last official statistics (1905), there were 168 of these societies, with 21,575 members owning 161,710 cattle registered on the societies' books.

Norway has no coöperative banks for according either long-term or short-term credit. A few societies formed for the collective buying of fodder and fertilizer sometimes make loans to members. The mortgage-bond companies, of which there are a number, make many loans for agricultural purposes to individuals and also to societies which are willing to pledge the mutual liability of members as security. But the chief source of credit for farmers is the savings banks. These institutions supply the well-to-do farmers with what money they need. The poor classes depend on the Norwegian Bank for Laborers' Holdings and Dwellings, described in a previous chapter.

Agricultural conditions in Sweden are similar to those in Norway. But cooperation is extensively practised in Sweden, as the idea was acclimatized there at an early date by the landowners' mortgage associations. In 1911 there were 5,869 Swedish cooperative associations, agricultural and industrial. Only 23 of them had credit for their object, and two of these were solely urban. A new cooperative law, however, was enacted in 1911, which makes important changes in the old 1895 law on economic associations. This new legislation has given a strong impetus to coöperative credit, and the existing societies are planning to establish a central bank, while a campaign has been started for local banks.

Cooperative credit made its first appearance in Switzerland during the sixties of the last century in the form of people's banks similar to the Schulze-Delitzsch banks for industrials and shopkeepers in the cities. But they did not conform closely to type. Some of them had unlimited liability and others limited liability, while not a few were altogether without capital, its place being supplied by the guaranty of the communes or benevolent institutions. They grew in numbers with the progress of cooperation generally, but none was started for farmers until after the cooperative law was enacted in 1883.

The first rural cooperative credit society in Switzerland

was founded at Schlosshalde in the vicinity of Berne in 1887 by a clergyman named Traber. Another was formed the same year by Von Steiger, a councillor of state, but the movement did not become active until 1900 when Traber formed his second society at Bichelsee in Thurgau. The first society was composed of 20 Christian socialists, and although the Swiss laws did not make share capital obligatory, it required each member to subscribe to a share of 50 francs (\$10) to be paid up in instalments, forbidding, however, any member to hold more than one share. This share was allowed a dividend of five per cent out of the profits after 50 per cent thereof had been set aside for the indivisible reserve. After the reserve reached the amount of the liabilities of the society, it was provided that the net annual profits, diminished by the dividends, should be devoted to some object of an agricultural or industrial nature for the benefit of the members. Barring this requirement for share capital and entrance fees, the first rural cooperative credit societies of Switzerland were replicas of the German Raiffeisen societies, because they purchased supplies and sold produce for their members and looked out for their religious and moral as well as material welfare.

By 1902 there were 15 rural cooperative credit societies, all practically like the first which was founded. Under the direction of Traber they combined and formed the Swiss Union of Raiffeisen Banks, which subsequently assumed the position of a national federation and brought into its fold four large cantonal unions. But the right of supervising or inspecting its adherents has not been conceded to it, nor is such control exercised in a compulsory way by the cantonal unions or any other authority. Consequently the statistics which have been gathered are not sufficiently full or accurate to show the true situation. In 1910 there were at least 139 rural cooperative credit societies with 10,024 members, and 18 of the societies, besides receiving deposits and according credit, bought and sold farm supplies and produce in the true Raiffeisen style. In that year all but nine of the societies belonged to the Swiss Union. The

business done amounted to around \$2,300,000. In 1911 the affiliated banks had increased to 153 with 9,854 members, with about \$9,000,000 of business.

Thus cooperative credit has gained a firm foothold in Switzerland, but the idea was not introduced on account of any lack of banking facilities. The little republic has been adequately supplied for many years with banks which reach all classes of people, and she is frequently referred to as the only country in which farmers have too much credit. There are many state, communal, private and small joint-stock banks with capital of a few thousand dollars each, which, in addition to receiving deposits, handle discounts and do all kinds of banking business. These concerns for over two score years have been collecting petty savings and redistributing them in their respective localities, and thus have extended banking to the very doors of the rural borrowers. Necessity did not bring cooperative credit into being in Switzerland. It was started because of its moral effect in teaching farmers to be their own bankers and to be mutually responsible for one another.

Besides all these facilities there was a peculiar form of cooperative credit in common use in the canton of Thurgau for the purchase of cattle, long before the regular form of coöperation was thought of. Indeed, it is so peculiar that it exists in no other country. Cattle raising and dairying are the chief industry of this canton, the inhabitants in some of the communes being nearly all devoted to it. In 1851 a cantonal law was enacted authorizing the opening of communal offices to assist farmers financially in buying cattle. These offices are managed by a commission elected by popular vote. The commission may borrow money for its purposes by issuing bonds or notes upon which all of the electors of the respective communes are jointly and severally liable. Hence this form of cooperation is in a measure voluntary. The farmer who obtains a loan from the commission must give a chattel mortgage on the cattle purchased or some other sufficient security. Sixty dollars is the highest sum lent on one head of cattle. This plan soon

proved so effective that the cantonal government adopted the practice of making annual appropriations to every commune in which a commission is established. There are now at least 25 cattle-purchasing commissions in Thurgau, and the appropriations with the accumulated interest thereon and the small charges added to the borrowers' interest, have now created funds which equal the outstanding loans of the various communes. This practice has been adopted in other cantons, notably in Zurich.

CHAPTER XXVIII

RUSSIA AND THE BALKAN STATES

Activity of Cooperative Societies in Russia.—The Artel.—Early Cooperative Loan and Savings Society—Moscow Agricultural Association.—Schulze-Delitzsch Banks.—Credit Societies—General Board for Small Credit and the Bank of Russia—Legislation and Government Aid—Zemstvo Banks—Moscow People's Banks—Conditions in Finland—Highly Centralized Cooperation.—Central Cooperative Credit Establishment—People's Banks in Roumania—Central Bank—State Aid—Servian Banks of Raiffeisen Type—Joint-stock Central Bank—General Union.—Public Granaries—Farmers' Banks of Bulgaria—Central Agricultural Bank—Unique Central Cooperative Bank—Cooperative Attempts in Turkey and Cyprus—Cooperation Among Jewish Colonists in Palestine

THE mighty empire of Russia comprises many races which differ one from another in language, customs and local laws, while all degrees of intelligence down to unlettered ignorance are found among its numerous rural population. The rural population of European Russia is the more enlightened, yet the bulk of even the European farmers were serfs bound to the soil as late as 1861. They emerged from bondage without land or the means to buy it, but behind them lay the vast, desolate steppes of the interior which have now become the granary of two continents. The organization of credit in such a nation naturally followed various lines, and much of it bears the stamp of an autocratic government solicitous for the welfare of a people whom it looks upon as its wards. Nevertheless, Russia is second only to Germany in the number of its cooperative societies and surpasses all the world in the rapidity of the progress which it is making in the advancement of cooperative credit.

The earliest form of association in Russia was the *artel*, sometimes temporary in character and sometimes more like a guild composed of persons of the same class, bound together under the leadership of a chief for mutual assistance and defense. Formerly the *artels* were without written rules or regulations. They now exist in unknown numbers, and many of them operate under signed articles of agreement; they have millions of dollars at their disposal in the banks. The more influential *artels* charge large entrance fees, but have no trouble in getting new members because they take care of all who are out of work if employment cannot be found.

Members frequently own little farms on which they live a part of the year, but the *artel* is not for landowners. It owes its origin to the habit of the unencumbered laborers and peasantry of pulling up stakes and migrating in droves from their old homes to more attractive regions on the broad, easily traveled prairies of the Russian hinterland. While extending financial aid in times of need, very few *artels* have gone into the credit or banking business. Those which have adapted themselves to modern conditions became economic cooperative societies or labor unions. Hence the Russian peasants were compelled to find other forms of association for credit purposes.

In 1840 the communes created loan funds and organized a few provident savings banks, but these had no cooperative feature and were simply a method adopted with the view of getting banking down to the people. The first mutual credit society in Russia was founded in 1864 in the city of St. Petersburg. The next year S. F. Longuine, imbued with the spirit of Raiffeisen, started a savings and loan society, which was soon followed by others in a number of rural communities. In 1866 a cooperative loan and savings society with shares payable by annual instalments was founded at Dorovatovo. This model met with the approval of the Moscow Agricultural Association, which formed a permanent commission to propagate the idea. The cooperative movement may be said to have begun in that year.

Officials of the provincial and district governments were

numerous and influential in the commission, and this led to state intervention in the movement which has continued in an increasing measure down to the present day. The entering wedge was an appropriation of \$2,600 out of the Imperial Treasury to the Moscow Agricultural Association for educational work. Next the provinces and districts subvented cooperative societies, and many were formed through these forced means, but as the mass of the farmers did not join, the progress was artificial. The members were mainly persons in comfortable circumstances who borrowed the cheap money to lend at a profit to third parties. In 1888 as many as 395 of these spoon-fed societies went to the wall.

But in spite of these failures cooperation took root, and in 1895 it was deemed advisable to enact a law to give it a legal status. This law authorized the formation of cooperative credit societies with and without shares, but forbade societies without share capital to receive deposits from outside sources. These were intended to serve as locals, while societies with shares were designed as regional banks, but this distinction was not observed in practice. The share societies were organized and managed according to the Schulze-Delitzsch principles and recruited their members mostly from the cities, while the Raiffeisen societies which Longuine and his followers had formed practically all disappeared as soon as they were deprived of their main source of outside capital, because the members themselves were too poor to make deposits in sufficient volume for their operations. Consequently the peasantry was left without a credit system of its own.

An effort to remedy this situation was made in 1904 by enacting a law on "small credit institutions." A small credit institution, according to this law, is one which, whether cooperative or not, fixes the maximum at \$156 for ordinary loans and at \$520 for loans secured by mortgage on grain. Special privileges were accorded institutions of this kind, and they grew and spread very rapidly until 1910, when Russian legislation, having passed through its experimental stages, finally culminated in a cooperative credit

law based on true principles. No new small credit institution has been formed since that year and although the 4,809 still existing, with balance sheets showing \$38,546,172, loom large on paper, they are of no economic importance in rural life and are in fact in liquidation

The types of cooperative credit societies now in active operation in Russia are people's or Schulze-Delitzsch banks and cooperative loan and savings societies. The main points of difference between the two are that the latter have no share capital and pay no dividends. In 1913 there were 3,300 people's banks in Russia. The 3,019 which rendered reports had 1,726,301 members. Their share capital amounted to \$22,662,575, special capital to \$1,919,920, reserves to \$2,574,910, deposits to \$87,283,230, money borrowed to \$10,073,915, and outstanding loans to \$109,193,390. The great majority of their members were industrials, tradespeople and urban residents.

The cooperative savings and loan societies, on the other hand, are all agricultural, but they conform in no sense of the word to the Raiffeisen type. The board of management of every society is always paid, the liability of members in the majority of cases is limited, and the size of the society is large. The average membership is 60%, the operations often extend over large areas embracing 2,000 to 4,000 households, and the loans are never granted for longer than a year. Nor do they teach religion, or as a rule make collective purchases or sales for members. So the Russian rural cooperative savings and loan societies, instead of being like Raiffeisen's, are *sui generis*.

According to the law, each credit society must have at the start a social fund of not less than \$520, which may be created either by donation, borrowed money or members' subscriptions. This fund must never be allowed to fall below its original amount, and must be increased each year by 40 per cent of the profits. Twenty per cent of the rest of the profits go into the reserves. Although no dividends are permitted, a portion of the remainder may be distributed as a rebate among members, if so decided at their annual meet-

ing. The assets left after dissolution of a society are devoted to some benevolent object. If a society is formed with capital, the size of the shares may be fixed at one or two rubles (one ruble, 51½ cents) up to a hundred or so rubles payable by periodical instalments. But voting is per head and not per share, so no matter how many shares a member may be allowed to hold, he may cast but one ballot at any election or on any resolution.

In 1913 the total number of savings and loan coöperative societies in Russia, excluding Finland, was 9,200. The 7,974 societies rendering reports had 4,867,734 members. Their social funds amounted to \$12,653,035, special funds to \$2,148,125, reserves to \$1,824,645, deposits to \$60,997,630, and borrowed money to \$26,449,885. The outstanding loans were \$95,215,260. The interest on deposits was between five and eight per cent. The interest on loans was high according to cooperative standards. In new societies it was generally 12 per cent and the lowest rate was 10 per cent. This rather heavy rate is due to the lack of money in Russia and is considerably below what is exacted from farmers not belonging to cooperative societies.

Including Finland, there were in 1913 at least 13,500 Russian people's banks and cooperative savings and loan societies, with a membership near to 8,000,000, and the footings of their balance sheets showed a combined amount of \$242,050,000. Very few of these concerns do collective buying and selling, but at least 1,670 of the rural societies have erected and financed granaries for storing and marketing wheat.

There are 11 federations of coöperative credit societies and banks in Russia. They have not the right of compulsory audit or supervision over their adherents and consequently do not exercise much influence upon their affairs. The greatest directing power over the societies is the Government itself. All societies not belonging to the Schulze-Dehltzsch federations have been welded together into a highly centralized system under the control of the Imperial Government, the natural corollary of the state aid it enjoys.

This control is exercised through the Imperial bank of issue, the Bank of Russia, for which an agricultural programme was inaugurated as early as 1896. The law of 1904 pursuant to this programme provided for the creation of a General Board for Small Credit within the Bank of Russia.

The president of this Board is selected from among the directors of the Bank, and its executive committee consists of this president, the vice-presidents, representatives of the Imperial auditor's office and of the Departments of Agriculture, the Interior and the Treasury, and a few other public officials. The Board is charged with the distribution of subsidies, and its duties are to audit and supervise small credit institutions, coöperative societies included, and to adjust the relations between them and the Bank of Russia. The Board has a right to the services of the Bank's inspectors, and through these semi-public officers and provincial or district committees, it promotes cooperative and people's credit and sees that all the institutions under its jurisdiction conduct themselves in strict conformity with the laws. By a law of 1910 the savings banks were required each year to invest ten per cent of the increase of their deposits over the preceding year in loans to the institutions for small credit. These sums are distributed by this Board among the cooperative credit societies for enlarging their social funds.

Through this machinery the Bank of Russia has loaned \$57,514,170 to 12,237 cooperative credit societies (1913). But this is only a small portion of what the Bank of Russia has invested in agricultural loans. The Bank has assisted agriculture, especially for moving grain, since 1885 by extending credit on growing crops or on warrants or waybills of grain in storage or in transit, to the farmers directly or through their credit institutions or the railroads. In 1911 13 per cent of its loan and discount business was done on this security and six per cent of the value of the grain crop of the whole country was mortgaged to it in this way. The credit ran for one year or under at an average of 4.5 per cent interest without any commissions or charges for travelling expenses. The Bank of Russia also makes loans on real

estate and on the farmers' personal paper for implements and machines

Not only has Russia surpassed all European nations in expenditures and concessions for creating small holdings for peasants, but she has now taken foremost rank in providing credit facilities for farmers both large and small. In 1909 Russia enacted a law for the erection of 84 public granaries to be completed by 1916. Eight of these were in operation in 1913, constructed of reinforced concrete in American style. The farmers have no difficulty in borrowing money at cheap rates against receipts issued by these granaries. The Russian Government time and again has also made heavy appropriations to succor farmers in regions devastated by droughts or revolutions. Some notable instances occurred during the bad crops of 1898, 1906 and 1911. In these years public funds were placed at the disposal of the Minister of the Interior, who employed them in purchasing seed and other agricultural necessities or in making loans to the provinces and districts for such purchases to be distributed among suffering farmers. These advances were intended to be provisional but only a few of them have been repaid. Less than two per cent of the \$295,820,254 thus lent between 1891 and 1912 has been recovered. The Government occasionally cancels outstanding claims and pockets the loss.

The provinces and other territorial divisions of Russia have been no less active than the Imperial Government in providing credit facilities for farmers. At the beginning of 1912 there were 1,405 county credit and savings banks founded by villages or groups of tenant farmers. A law of 1905 authorizes the county to establish these banks on the vote of a two-thirds majority of the electors concerned. In addition there were seven federations embracing 105 credit organizations and also 107 *zemstvo* people's banks. The latter are simply departments of the *zemstvos* (districts), without members, but established upon the vote of a two-thirds' majority of the electors. Over one-half of their business is transacted with cooperative credit societies, and comprises both long-term loans for creating or enlarging their

capital and short-term loans for supplying them with working funds. The interest rate is between seven and eight per cent for societies and between nine and 12 per cent for individuals. Some of the *zemstvo* banks maintain stores for the sale on credit of fertilizers, farm implements and metal roofing.

All these regional institutions use cooperative methods. Besides those mentioned there were 3,792 credit establishments owned, managed, controlled and financed by various local authorities. Among these are savings and subsidy banks, banks for ex-serfs of the public domains, village banks operating with revenues obtained from liquor licenses, etc., rural banks formed by popular vote of one or more counties, communal savings banks, orphans' banks of which the funds are lent to farmers, and special banks for Poland and for certain natives.

State aid, indeed, is playing the most important part in the organization of cooperative credit in Russia. But this intervention does not extend to giving special privileges or free grants of money except in event of extreme necessity. It rests at making loans on reasonable terms and interest rates. The cooperatives understand this to be the case, and they have already established two central banks to take the place of the Bank of Russia and the General Board for Small Credit when the temporary aid which the credit societies are now enjoying shall be withdrawn. The first of these central institutions is the Warsaw Cooperative Bank founded in 1910. At its foundation 1,301 of its shares were subscribed by private individuals, 1,717 by establishments of popular credit, 611 by 72 people's banks, 193 by four industrial credit banks, 97 by 17 agricultural associations, 44 by 13 distributive cooperative societies, and 37 by various other societies. In 1912, 3,000 more shares were issued and immediately subscribed, and the capital now stands at \$901,250.

The second is the Moscow People's Bank founded in 1911. It did not have to resort to a public issue of shares. Its first 3,822 shares were taken up as follows: 80 by 23 establishments of popular credit; 1,399 by 701 cooperative credit

societies; 678 by 290 people's banks; 63 by 13 urban credit and savings societies; 31 by four federations of cooperative credit, 57 by two federations of artel creameries; 81 by 42 cooperative creameries; 200 by the Muscovite Union of Distributive Cooperative Societies; 491 by 227 distributive cooperative societies; 52 by 18 agricultural cooperative societies; 38 by nine credit and mutual aid societies, 35 by nine exchange artels; four by two cooperative associations, eight by four groups of popular credit establishments; and 605 by 160 individual cooperatives. In 1912 it issued 4,000 new shares, and its paid-up capital is now \$515,000.

The Grand Duchy of Finland, unlike the other provinces of Russia, is autonomous as regards internal affairs. Cooperation has progressed there independently of the movement in the rest of the Empire. This northwestern extremity of Russia is a vast, marshy plateau with a cold, moist climate. Eighty per cent of its 3,600,000 inhabitants are farmers and foresters, who 14 years ago were poor and ignorant and understood very little about modern methods of cultivation.

This backward condition had long been viewed with concern by the educated portion of the population. In 1890 some magazine articles and pamphlets appeared in the Finnish and Swedish languages on English and Danish cooperation and the Raiffeisen cooperative credit societies. These awakened widespread interest, and in 1899 some college professors and lawyers formed an association for introducing cooperation into Finland. In the following year they had a law passed on cooperation which went into effect in 1901, and thereupon they started a campaign for cooperation which has continued with increasing energy to the present. This propagandist association is now composed of over 1,000 of the best citizens of Finland, and is maintained by private contributions and the sales of periodicals which it publishes. But its greatest asset is the enthusiastic and voluntary support of young professors of the agricultural and other colleges who spend their vacations in lecturing and organization work. Since the Finnish farmers seem to lack the necessary initiative to take matters in their own hands, all

inspiration has emanated from this one association, and hence the cooperative system which is being developed has become highly centralized and every society so far formed has joined it.

Butter-making and collective buying and selling were the first subjects to which this central association directed its attention. The next was credit, and in 1902, upon learning that the Grand Duke favored the project, a few associates founded a bank under the name of the "Central Cooperative Credit Establishment." These associates subscribed for all the capital of \$60,000 on the understanding that they would sell their shares to local credit societies whenever the latter cared to buy. The state of Finland advanced \$800,000 as a working fund and granted an annual subsidy of \$4,000 for ten years. A new advance of \$1,000,000 has been asked for. The bank is a private institution managed by six directors and an executive council of which the president is selected as the head.

The Central Coöperative Credit Establishment extends credit not to individuals but only to societies in proportion to the amount of stock they hold. Its loans are made on open accounts, against which adherents may draw up to the maximum allowed for any sums large or small, and they may make repayments without giving any previous notice, that is, a cash credit business is carried on. The size of loans which have been granted runs from \$200 to \$12,000. The interest rate is between four and five per cent.

In 1913 there were about 2,000 local cooperative societies with nearly 250,000 members in Finland. The credit societies are similar to those of the Russian system in that they have no shares and pay no dividends. They are not permitted under the law to take deposits from outsiders, and inasmuch as members are usually too poor to make deposits in quantity, the societies have to depend upon the Central Establishment. The money borrowed from this institution is loaned out to members at 5 5 and six per cent. Near the Russian border a commission of one-half of one per cent to two per cent is added.

Cooperation appeared in the cities of Roumania about 1880 in the form of people's banks, but it did not make much headway until after 1895 when it began to be used by the farmers. By 1902 there were 700 cooperative credit associations with 59,618 members. This evidence of strength and efficacy caused Roumania the next year to enact a law on cooperation and also to found the Central Bank for People's Banks and Cooperative Societies, with a capital of \$4,000,000 supplied by the state.

In 1911 there were 2,750 cooperative banks with 510,118 members in Roumania. Their capital was \$15,361,307, of which \$12,450,648 had been paid in. The deposits were \$2,558,604, and outstanding loans \$19,593,000. The law allows 25 persons to form a bank, but the average membership was 185. Shares in the same bank may be unequal, and they run from \$4 up to \$1,000. Twenty or 30 of the banks impose unlimited liability, but all the rest limit the liability of members to the amount of their subscriptions. Each bank confines itself to a village or a city, and it receives deposits from and grants loans to any person within its area. In fact, about one-third of the loans are granted to non-members. Members, however, are forbidden to deal with any other bank. A very large number of the banks do collective buying and selling. Much of the aid secured from the state is used in making loans to members.

The banks do not accord credit for a longer period in the first instance than six or nine months. If a borrower needs more time a renewal may be granted, but never for over 18 months, unless the shareholders at a regular meeting decide otherwise. Collateral and chattel mortgages are frequently taken, but the preferred security is the indorsement of one or two responsible friends. The interest charged non-members is nine or 12 per cent. Members obtain credit at a few points lower.

The management of a bank is entrusted to an executive council of six or nine members elected for three years, one-third of whom retire annually. In the small societies the council serves without pay. In the larger ones, 15 per cent of

the year's profits is distributed among its members and used for meeting administrative expenses. The highest dividend is ten per cent. The surplus is written off to the reserves. This fund, which in 1912 amounted to \$3,000,000, must be invested in government bonds.

There are 20 federations to which 400 cooperative banks belong, but their central institution is still the Central Bank for People's Banks and Cooperative Societies whose management is controlled by the state. This Bank exercises a strict supervision over the local banks and requires them to conform with its methods of doing business but in other respects gives them entire freedom of action. It advances money to them at four or five per cent

State aid is a dominant feature of the agricultural credit system of Roumania. Besides the Central Bank, there are three other state banks subsidized and managed by the Government. These were called into existence with the object of furnishing persons engaged in agriculture with the necessary means to buy and equip farms on the public domain and on estates of large landowners, which have been ordered to be sold and subdivided for small holdings. Their business has thus a special character and relates primarily to real estate. The agricultural section of one of them, however, is very active in according short-term credit. This is the Agricultural Credit Bank established in 1899, before the state had provided cooperation with its own central institution. The \$4,000,000 which, like its successor, it received from the state, has been placed at the disposal of the cooperative credit associations for discounting the bills and notes of their members and customers. The Agricultural Credit Bank has been charged also with the duty of collecting the \$7,027,668 which the state advanced to the farmers for food and grain during the famine in 1904 and 1905. Its officers, moreover, are identical with those of the Agricultural Credit Bank, which was organized in 1906 with a capital of \$400,000 to be used in loans on easy terms to vintners for restoring and replanting vineyards damaged by the ravages of phylloxera.

The first coöperative bank in Servia was founded by one Avramovitch at Vranovo in the Danube Department on March 29, 1894. By 1911 there were in existence 907 banks. The reports of 536 showed 27,469 members and a business of \$2,224,838. These banks are all of the Raiffeisen type with some slight changes due to local conditions.

The territory of a bank is confined to an area embracing 1,000 to 3,000 inhabitants. There is very little distinction between shares and deposits. The payments made on shares are considered as permanent savings, while deposits are looked upon as funds for daily use, placed with the bank simply for safekeeping, after the fashion adopted by Mr. Desjardins for Quebec, described in a subsequent chapter. The share is an obligation to pay monthly sums during a certain period, usually ten or 20 cents a month for two, three or five years. After they are fully paid up they are redeemable with $4\frac{1}{2}$ or six per cent interest, as fixed at the annual meeting of the members. The payments on these shares constitute the social capital of the bank, and there is no regulation as to the number of shares which may be held in one hand, nor is there need of any, since voting is done not per share but per member. No dividends are distributed. Whatever profits remain after setting aside the amounts determined for the reserves are turned over to the central bank. Reserves also would be similarly disposed of in the event of dissolution.

A lower rate of interest is given on deposits than on the savings used in buying shares, but every effort is made to attract deposits. Pennies are received, and a special service has been opened in most of the banks for school children whose mites are collected by means of stamps purchased and pasted on cards. Many of the banks sell and buy farm supplies and products, while others leave this business to cooperative societies operating alongside of them and organized for the purpose through their financial assistance. No farmer can become a member of a bank unless he is the head of a family. He may not withdraw his savings as long as he has a debt unpaid in the bank, but must use

them for its gradual extinction. The maximum maturity for loans is two years, and it cannot be extended except in case of bad crops, when a renewal of only six months is permitted.

A central bank was established for the local banks in Servia at the very beginning of the cooperative movement. This bank is a joint-stock company, and its first shares were subscribed by the Danube Department, seven districts thereof, 132 communes, and about 500 individuals. The shares of the central bank are \$20 each, and may be paid for in instalments. No local bank may hold over 100 shares, but within this limit each local bank is bound to subscribe to as many shares as the amount of the credit opened for it is a multiple of \$200. The state advanced \$400,000 to the central bank without interest but takes no part in its management. The central bank, besides acting as the financial head and clearing house of the cooperative societies, buys and sells to them either for cash or on credit, seed, fertilizer, farm implements and machinery for resale to their members. Four per cent interest is allowed on shares and on deposits. The surplus goes into the reserve. The interest on money borrowed by adherents of the central bank is so fixed that the individual farmers obtain loans from their local banks at $4\frac{1}{2}$ to six per cent per annum.

A national federation called the General Union, with headquarters at Belgrade, is the supreme authority within this agricultural cooperative credit system of Servia. The central bank, the local banks and all other rural cooperative societies must by the law become members of the Union, which is charged with the duty of auditing their accounts and supervising their affairs. It is also the chief organ of propaganda and guidance of cooperation in the kingdom. It is supported by contributions of four cents a month per head from all members of adhering organizations.

Servia has public granaries in addition to this cooperative credit system. They were originally established when the country was under Turkish rule for receiving grain turned in for taxes. They are now used for storage of cereals for supplying farmers with food and seed during bad times. They

are kept filled by a law which requires farmers to pay a small portion of their taxes in kind each year. In return for this the farmers are entitled to supplies in the event of loss of crops from drought, inundation, hail or fire. But in place of giving so many bushels of grain, the Government now grants a loan which must be repaid after the next harvest. The granaries may sell their stores and convert them into cash, but the proceeds must be deposited in the public banks if not invested in farm loans. Grain is usually the security demanded for these loans, and the granaries may mingle it without regard from whom it comes. The granaries are managed by the communes in which they are located, subject to the supervision of the Minister of Agriculture.

The organization of agricultural credit in Bulgaria began with a law enacted by the Ottoman Government in 1865, which was based on a project formulated several years previously by Midhat Pasha who was then the Governor, under the Turkish dominion, of what now corresponds to the northern portion of the present kingdom.

This law compelled the farmers to join banks which were created for them in the principal cities of each district. The banks were managed by two Mohammedan and two Christian cashiers, and the presence of the four was necessary for the validity of any act. Working funds were raised by a tax levied on the farmers themselves. This tax could be paid in farm produce. Indeed, the farmers were too poor to pay in any other way, since they had been giving 30 to 100 per cent interest on loans and were in the clutches of usurers. When a bank accumulated \$1,000 it was authorized to begin business. No dividends were declared. The profits went by one-third to works of public utility and by two-thirds to increase the bank's capital.

The banks were enjoined also to receive repayments of their loans in kind, and in consequence at the start they resembled country stores more than financial institutions. However, they reduced interest rates to nine or ten per cent

and were doing excellent service by 1877, when the Turco-Russian war broke out and gave them a bad setback. Most of them were plundered of all their funds and records by the retreating Turks, and borrowers refused to pay up after this destruction of the evidence of their debts. The loss was recouped by the issue of bonds

The Russian Government upon coming into control of the country proceeded to make some changes in these banks, by confining them exclusively to farmers, placing them under the direction of the Minister of Agriculture, and giving them a few cooperative features by allowing members of each bank to elect a committee of nine to manage it in conjunction with a cashier and comptroller appointed by the Minister of Agriculture. This was the situation of the banks when Bulgaria became free. The independent state, always strongly inclined to centralism and bureaucracy, in 1894 consolidated all existing banks and utilized their funds to form one big central bank under the name of the Central Agricultural Bank of Bulgaria, which now has 85 branches and 75 agencies

The consolidation gave the Central Agricultural Bank a capital of \$8,000,000. The chief object of this institution is to assist farmers, but it may grant loans to any other persons up to the amount of deposits made by them. It possesses the usual banking powers and the right to issue debentures guaranteed by the state. Its credit is accorded to farmers individually and to rural cooperative societies, and it takes as security mortgages on real estate or growing crops, live stock or produce. Short-term loans may not exceed \$4,000, nor long-term loans of two to 20 years, \$20,000. Although this central bank, theoretically at least, is owned by the towns and villages in proportion to the quotas which their respective banks contributed towards its foundation, they have no voice in its administration. It is managed by a president and four directors appointed by the Crown. No dividends are declared. The profits are disposed of as follows: 12 per cent is set aside each year to meet possible losses; three per cent as a bonus to officials and employees;

25 per cent for the reserve; 35 per cent to increase the working funds; and 25 per cent to the advancement of agriculture.

The scope of the Central Agricultural Bank is national, and it applies its resources especially to develop rural coöperation. To this end it requires its staff to study the subject of cooperation, while it gratuitously instructs school teachers and priests in the elementary principles of banking so that they may become competent organizers and managers of rural banks. In 1910 its capital was \$8,569,080, reserves \$2,569,199, and deposits and accounts \$11,138,277. Its total business was \$224,888,416, of which \$6,245,273 was real-estate mortgage loans made in part from the proceeds of foreign sales of its debentures. The profits were \$2,573,689. The bank is exempted from taxes and has the free use of the mails and public telegraph.

The educational work and financial assistance of the Central Agricultural Bank of Bulgaria has given a rapid development to rural credit societies. They have all taken a modified Raiffeisen form. The first was started by Kardjew, an instructor in an agricultural school at Rustchuk. The success of this society induced the teachers of the county schools to hold a convention a couple of years later, after which the movement for cooperation began in earnest. In 1910 there were 775 Raiffeisen credit societies with more than 40,000 members, with assets whose combined value exceeded \$28,282,870. The loans for the year amounted to about \$3,000,000, supplied in part from the Central Agricultural Bank. The societies are nearly all united to one or other of two federations, which are supported by contributions of adherents and subsidies from the Department of Agriculture.

Under the law of 1907 these federations had supervision over rural credit societies jointly with the Central Agricultural Bank. This troublesome double supervision, however, no longer exists. In 1910 the Bulgarian Government, in execution of a plan it had long had in view, created a new central establishment, and gave to it the exclusive right of supervising the societies, made it their financial head, and en-

trusted it with the duty of directing and developing coöperation for all its varied purposes in town as well as country throughout the kingdom.

This Central Cooperative Bank is a public institution, and has no duplicate in any other nation. The capital stock is without fixed limit. The Central Agricultural Bank and the National Bank were forced to furnish \$1,000,000 on which it started and are compelled to contribute a certain portion of their annual profits to the increase of its capital. These two institutions are called foundation members. They are allowed dividends of four per cent, but must serve gratuitously as correspondents of the Central Coöperative Bank and act as its representatives in all legal business. They are liable on its engagements up to the amount of their contributions. Cooperative associations and federations must subscribe to one share of \$20 upon joining. They are called ordinary members and to them alone may the bank extend credit. Their shares may be paid for by instalments. The shares draw five per cent dividends and carry a liability up to five times their face value. No other concerns or individuals may be members.

The administration of this Central Cooperative Bank consists of a board of management, a superior council, an auditing committee, and the members when regularly assembled. The first is composed of one manager and two regents. They have the character of public functionaries, are appointed by the Crown, and can be removed only by Parliament. The second is composed of seven members, two appointed by the National Bank and Central Agricultural Bank, three by the affiliated societies, one by the Minister of Commerce and Agriculture, and one by the Minister of Finance. Their term of office is one year. Their compensation is a *per diem* allowance for attendance.

The auditing committee is composed of five members, one appointed by the Minister of Finance, two by the National Bank and Central Agricultural Bank, and two by the ordinary members. Their term is three years. The auditors act as field inspectors, guard the bank against irregulari-

ties, and prepare its financial statement and annual accounts. The meeting of the members must be held once a year, but they can vote on no subject except the election of officers. The supreme control is lodged with the Minister of Agriculture, who may veto all decisions and stop any operation or transaction of which he disapproves.

The Central Cooperative Bank of Bulgaria may issue debentures redeemable by lot, but it is forbidden to make real-estate loans or to do any business with outsiders except to take their money on deposit. It is authorized to own and operate warehouses for the storage of farm produce, and also to give financial aid to mutual societies of insurance against hail and cattle losses. Ordinary members may be expelled but cannot retire except by consent obtained at a meeting of the shareholders. Since 1911, when it began business, the Bank has been exempted from stamp duties and certain other taxes and has enjoyed the free use of the postal and telegraphic services.

A Raiffeisen cooperative credit society was opened in European Turkey by some Servian inhabitants near Constantinople in April, 1907. About the same time a similar society was started in Montenegro. Neither was successful, and there is not known to be any cooperative credit society of any sort in that part of European Turkey now within the kingdom of Albania. No effort to start a cooperative credit movement has been made in Greece.

In Cyprus a few years ago there were 22 credit societies of the Raiffeisen type, all started and fostered by a government official. They dissolved when this official changed his post and left nobody to direct their administration, but during their short existence they collected in the district of Paphos, in which they were located, more savings than were collected by the Public Savings Bank in the entire island within five years.

The cooperative credit movement was revived in Cyprus recently by the Savings Bank of Nicosia. This is a joint-stock company with shares of \$50 each. The majority of its

2,000 shareholders are working men and women, mostly servants and weavers. In December, 1909, Mr. Economides, the president of this bank, and William Bevan of the Agricultural Department of the island founded a new credit society in the village of Lefkonico. It is of the Raiffeisen type but exacts an entrance fee of about 50 cents from each member. This has been followed by a few other societies, all financially supported and supervised by the Bank. They pay interest at the rate of eight per cent for deposits and charge borrowers ten per cent.

Cooperative credit is practised in the Jewish farm colonies in Palestine. The first of these colonies, composed of refugees from Russia and followers of the Zionist movement, was founded in 1882 on a tract of land six miles south of Jaffa on the road to Gaza. Its success led to the formation of other colonies, all of which Baron de Rothschild put under his protection. He named one colony Zichron-Jacob after his father, and another Mazkeret-Bathyra after his mother. He planted the eucalyptus to keep off the malaria, induced the colonists to dig wine cellars and grow vines and fruit trees, and spent many hundreds of thousands of dollars in these philanthropic ventures for his coreligionists.

There are now about 9,500 Jewish immigrant farmers with their descendants in Palestine. They make wine, cognac and attar of roses, and raise olives, almonds, oranges and figs, some wheat, barley, cotton and other staple agricultural products. The colonists apply cooperation in the manufacture and marketing of their commodities, and through the associations which they have formed for these purposes frequently extend credit to members.

CHAPTER XXIX

SPAIN AND PORTUGAL

Positos.—Need of Credit—Operation of Positos—Recent Credit Societies—The Leo XIII, the Bank of Spain and the Mortgage Bank—Government Help for Cooperative Societies—Misericordias and Celheiros Communs of Portugal—Modern Agricultural Mutual Credit System—Agricultural Credit Board and Bank of Portugal—Republics of Andorra and San Marino.—Monaco and Liechtenstein.

COOPERATIVE credit is gaining a foothold in Spain, but the ancient *positos* are still the leading institutions for extending financial aid to the Spanish farmers. The *positos* are public granaries. The oldest date back to the fifteenth century. They were all established by the Government or by private beneficence for the same purpose which prompted Pharaoh to store up corn during the seven fat years for use during the ensuing famine.

Spain has been in continual decline since the close of the Middle Ages. The decline was stayed for a time by the gold plundered from newly discovered countries in Central and South America, but when this source of revenue was taken away, the downward trend was resumed and Spain lost by degrees her former strength and glory. Today her population is barely more than one-half of what it was in the days of the Cæsars. This decadence is due in large measure to the fact that vast areas of her lands have been worn out by generations of unscientific farming or swept barren by torrents pouring down from mountain ranges long since deprived of their forests. At present Spain is in great want of money both for the short term needed for agricultural industries and for the long term required for re-

claiming the upper valleys by irrigation and the marshy coastal regions by drainage and embankments and for enabling the farmers to acquire title to the land they cultivate.

An effort was made in 1873 to create credit facilities for the latter objects by establishing a mortgage bank with an exclusive monopoly of issuing debentures, under a president appointed by the Crown. It has not done much good. Its outstanding loans at the beginning of 1912 amounted to \$30,757,604, a relatively unimportant figure in view of its privileges and opportunities and quite insignificant when compared with what ought to be accomplished. The larger proportion of these loans was on urban properties, and the average size of loans was \$6,880, showing that nothing had been done except for the large or medium-sized estates. After the establishment of this mortgage bank several institutions were founded for lending small sums for short terms, and although they have met with better success, the *positos* yet continue to be the main stand-by of the small farmers, just as they were often their last resource in the near as well as the distant past when the effects of denudation and exhaustion of the soil and improvident farming and living began to manifest themselves.

Originally the practice was to fill the *positos* or granaries with the surplus of good years to be doled out during dearths and thus steady prices and tide over the needy to the next crop. But the grain had to be changed at intervals to prevent its spoiling, and thus led to the adoption of the idea of the Portuguese *celleiros*, of lending seed to farmers to be returned with a bonus at the end of the harvest, and finally of selling whatever surplus of grain might be on hand and making cash loans with the proceeds. The constitution and method of management of the *positos* have undergone various changes in the course of time. At present they are subject to the control of the Minister of Agriculture, exercised through a commissioner appointed for five years by the Crown.

Recently the immovable property of the *positos* has been ordered sold or converted into liquid assets, while their pow

ers and objects have been enlarged so as to include the receiving of deposits, the purchase of live stock and agricultural machines for sale or hire, and the granting of loans in cash for terms adjusted to the necessities or convenience of the farmers. In fact the *positos* have been so modernized by law during the last few years that they have become rural banks, and the Government is actively engaged in transforming them into banks and increasing their number. But they are still managed as of old by the communal councils, to which is awarded one-sixth of one per cent of the interest on the loans as compensation for the personal liability imposed upon them for granting the loans.

New *positos* may be created by the public authorities upon proof of the need for them, of the sufficiency of their endowment or capital, and of their ability to carry out the undertakings laid down in the plans of their scope of action submitted. Borrowers have no voice in the creation of the *positos* nor in the conduct of their affairs, so these institutions have no cooperative features. There were 3,529 *positos* in Spain at the beginning of 1913, with outstanding loans amounting to \$15,394,968 and total assets of \$19,085,980. The size of the average loan was \$64 and the interest rate six per cent a year, which indicates that they have become important factors in small credit.

The introduction of cooperative credit in Spain occurred with the opening of a Raiffeisen bank on June 30, 1901, at Amusco, in the province of Valencia, by the abbot Valentin Gomez, whose enthusiasm for rural cooperative credit was aroused to action by a resolution passed in its favor at a Catholic convention held in 1899. The prebend Anacleto Orejon founded a similar bank in the same province on March 30, 1902. Shortly afterwards Louis Chaves founded four others in the province of Zamora. Then came the law of 1906 on agricultural associations and the law of 1908 exempting such associations which had credit for their objects or one of their objects from certain taxes. An energetic movement followed, which assumed the syndical character of the French cooperative credit system, but was impelled in the

main by the Catholic church. At the beginning of 1913 there were 127 pure Catholic rural cooperative credit societies, and 1,154 *syndicats*, Catholic and undenominational combined, of which 538 were banks or had credit for one of their objects

The credit societies in the province of Zamora impose unlimited liability. Members make no contributions of any kind except deposits. The working funds are obtained from donations or borrowed money. The only paid officer or employee is the cashier or accountant. The cooperative credit societies in some of the other provinces have a capital composed of public subventions and membership shares of \$2, each payable in monthly instalments of five cents.

Many of the credit societies besides doing a loan and savings business supply their members on credit with seed, fertilizer and other requirements for agricultural work and the raising of live stock, and furthermore take produce in storage for safekeeping or collective selling. Members must furnish lists of all property owned by them and their wives. Their standing is determined and the maximum fixed for their credit by these lists. Security is always required for the loans. Deposits as low as a penny at a time are received, but they do not draw interest unless profitable use can be found for them.

Cooperative credit societies are not yet sufficiently numerous in Spain for the organization of a federation or a central institution by and for themselves. But there exists the Leo XIII, a bank of a religious character founded by the Archbishop of Zaragoza for the sole purpose of assisting the agricultural and industrial classes, which makes advances either in loans or discounts to the rural credit societies at four and five per cent and gives three per cent on their deposits. The Bank of Spain and the Mortgage Bank also accommodate the rural credit societies but to a less extent and at somewhat higher interest than the Leo XIII. The facilities accorded by these three large banks, however, are far from sufficient, and the Minister of Agriculture has presented a bill to the Cortes for the establishment of the

National Agricultural Credit Institute. This bank, if formed, will be placed under the control of the Government and endowed with a capital of \$200,000 and a working fund of \$10,000,000 raised by bond issues. The proposed bank will audit and supervise the *positos* and rural credit societies, make loans at four per cent, and carry on propaganda for the diffusion of cooperative credit. Another project also has been presented to the Cortes for a private agricultural bank with a capital stock of \$20,000,000.

The law of 1906 was the first of its kind enacted in Spain. It allows associations and combinations of associations to be formed for all agricultural purposes, specifies their rights and obligations, and lays down rules for their organization and management. It enumerates the various tax exemptions which they may enjoy, and provides state aid to encourage their development along certain lines.

The Spanish Government has itself started a number of cooperative societies in carrying out its policy and plans of settling unemployed families in the places where they were born so as to check emigration and repopulate the country districts. These families are required to form themselves into cooperative societies before they may receive the subventions which the state has appropriated for this home colonization. These subventions may be used for the purchase of farm equipment and even for buying food and clothing to keep the families alive until crops are harvested, but only on condition that they render themselves jointly and severally liable to the state through cooperation for the money advanced to any one of them.

In Portugal there is now a national agricultural coöperative credit system aided by the state and evolved along the lines of French *syndicalism*. But until this system came into existence the Portuguese farmers had no place to go for cheap and easy loans except the *misericordias* and *celleiros communs*, whose funds were far from being sufficient for their purpose.

The *misericordias* are benevolent institutions whose ob-

ject is to succor the poor, the sick and prisoners worthy of help but too proud to beg. Their capital is composed of contributions of members, usually rich or well-to-do, and donations and legacies. The first was founded by Queen Donna Eleonora at Lisbon in 1498, and its charitable objects included the building of hospitals, the care of orphans, the freeing of slaves, and the giving of dowries to young women in order to enable them to marry. As numerous other *misericordias* were formed and as their funds increased, authority was granted them to make loans on mortgage to clear lands and also to establish credit banks to make loans for agricultural purposes. They were authorized also, however, to make loans to industry and commerce, and these being more profitable, they eventually ignored agriculture. At present there are 149 *misericordias*, and their combined capital is only about \$3,053,383.

The *celleiros communis* are similar to the Spanish *positos* and the Italian *monti frumentarii*. The first *celleiros* was founded by King Sebastian in 1576 with the object of providing farmers with seed during the dearth of that year. A few more were founded by royal munificence and others by municipalities, parishes and private individuals. Their source of revenue was the income from donations and legacies and later on from taxes and compulsory contributions of grain from peasants. Originally the *celleiros* were managed according to the decision of their founders and were subject to their unrestricted control, but in 1852 they were all reorganized by law, converted into rural banks and placed under the management of local public authorities. They were authorized to erect warehouses and grain elevators and to do a warehouse business, and they were granted tax exemptions and special privileges with the view of encouraging them to aid agriculture. But they were not successful, and their number gradually declined until in 1911 there remained only 14, with \$128,288 of combined capital, of the 52 *celleiros* which existed in 1852.

These ancient institutions were completely eliminated from agriculture in 1911 when a law was enacted for the

establishment of an agricultural mutual credit system. This law decreed the abolishment of the *celleiros*, ordered their funds to be turned over to the system, and furthermore arranged to give so much assistance to the new agricultural banks that there is now neither use nor opportunity for any other kind. The present head of this system is the Agricultural Credit Board, a bureau in the Department of Agriculture, composed of four members appointed by the Government and three others elected by the mutual banks and approved by the Government. This Board is a temporary body which will be dissolved as soon as the system grows large enough to establish a central bank to supersede it. But for the time being the Board has entire control over the system, has been assigned the duty of fostering its development, and is entrusted with the audit and supervision of the banks and with the distribution of the subsidies granted for their support.

The subsidies for this system come through the Bank of Portugal. The Government requires this bank of issue to open an account at its headquarters and branches in favor of the Agricultural Credit Board. The account is guaranteed by the state and its extent is determined by contracts executed by virtue of law between the Government and the Bank. The amount was put at \$1,500,000 the first year. The business transacted by the Bank of Portugal with the Board and the agricultural mutual credit banks is done without charge or profit, the sole compensation being one-fourth of one per cent on the total amount of the current account in each bank as shown by weekly settlements. The transfer of funds from the cities in which the branches of the Bank of Portugal are located to the places where the agricultural mutual credit banks are situated is made through the postoffice by registered mail, the agricultural mutual credit banks giving duplicate receipts indicating the sum received, which are handed to the postman. Payments may be remitted in the same way.

This Portuguese agricultural mutual credit system cannot distribute the subsidies obtained from the state to any and

all classes of farmers The law distinctly states that the only banks which may belong to the system are those formed by members of agricultural *syndicats* or of agricultural professional associations The law defines such an association to be one composed only of farmers or of farmers and other persons exercising industries or callings allied to agriculture. Thus in order to become a member and borrower of an agricultural mutual credit bank, the Portuguese farmer must prove not only that he is actually and directly cultivating the soil but also that he belongs to an agricultural association in the locality Furthermore, the business of this *syndicat* or association must be confined to one or more of the following objects the purchase of seed, plants, insecticides, fertilizer and things for improving the soil, cattle, feed, implements and machinery and means of transportation; the payment of wages, rent, and working expenses; or the execution of work to improve the value of the soil or property Such an association may itself be a member of the bank

The members of an agricultural mutual credit bank, therefore, may be individual organized farmers and associations of farmers The chief object of the bank is to accord credit to its members, but only for the production, manufacture, marketing and sale of farm produce; or for the purchase, upkeep, or installation of warehouses and workshops for agricultural machinery and material and vehicles for hauling, or for the acquisition of agricultural machines.

For the purpose of raising funds for carrying on its operations an agricultural mutual credit bank may receive, besides the subsidies from the state, moneys by donation or legacies or on deposit from members or any other persons. The interest rate on deposits must never exceed four per cent, and the rate on money borrowed by the bank must not exceed that actually given on the deposits.

The sphere of operations of each local bank is one commune Local banks may unite to form district banks, with the consent of the Minister of Agriculture obtained through the Agricultural Credit Board. The articles of agreement

of a local bank, drafted on a model prepared by this Board and duly sworn to and filed as a public document, must be signed by at least ten farmers, and specify the conditions for the admission and expulsion of members, define their rights, obligations and liabilities, prescribe the method of organizing the committee of management and the meetings of members, and define their respective duties and powers.

The liability of members may be limited to a share or to an amount of which the share is a multiple, or it may be unlimited and render members jointly and severally liable for all debts of the bank. But creditors cannot touch the members until legal remedies against the bank have been exhausted. A limited-liability bank may issue shares and pay dividends up to $4\frac{1}{2}$ per cent a year. Indeed, one-half of the profits must be annually applied to paying back the shares of members. But in an unlimited-liability bank, neither the profits nor any of the funds coming from subscriptions, entrance fees, gifts, subsidies or from any other source may be distributed among members. All the profits are put into the reserve, and in the event of dissolution this fund must be turned over to the Agricultural Credit Board to be used in founding a new bank in the same commune, or in some undertaking therein of an agricultural nature if a new bank is not formed within one year. The only officers who may receive pay are the treasurer and the accountant.

The loans of a bank must not be for longer than one year, with a renewal for one year more. The maximum interest is five per cent, except for loans made from funds of the *celleiros*, on which it is three per cent. Pledges, deposits, assignments of income, signature of sureties or mortgages are always required for security. In loans secured by indorsement, the surety is considered to be primarily liable. Loans on real estate must be secured by first mortgages. None can be over \$1,000, and the total must not exceed one-fifth of the outstanding loans of the bank. No member may borrow a sum of more than 50 per cent of the value of the security offered plus 25 per cent of the value of unencumbered

real estate owned by him or his sureties. The purpose of the loan must be stated in the application, and if the borrower uses it in any other way, he must be expelled and can never become a member of another agricultural mutual credit bank, besides being liable to criminal prosecution and a fine of \$5 to \$500. Preference must be given to loans for small amounts. An appeal lies from the bank to the Agricultural Credit Board in cases of expulsion or refusal of admittance or of an application for a loan.

The agricultural mutual credit banks may use their reserves as well as their other funds in making loans, and when their funds are larger than are necessary for the needs of their members, they may lend the excess to other banks of the system or employ it in local agricultural undertakings or even in propaganda for diffusing knowledge of cooperative credit. The banks, the business done by them, and their paper and documents are exempt from all taxes and duties and their correspondence may be franked through the mails.

But the moneys advanced to a bank through the Agricultural Credit Board may be used only for loans to members. The advances granted by the Board to a bank organized on the limited-liability plan must not exceed twice its capital. The advances to an unlimited-liability bank are restricted to the amount of the capital plus 50 per cent of the combined value of the unencumbered real estate owned by members. This value is computed by taking 15 times the taxable revenues as assessed for taxes. These advances run for one year and must bear at least $3\frac{1}{2}$ per cent per annum. They may be renewed, but with an increase in the interest rate which may be one per cent more.

The interest is collected by the Bank of Portugal, which must render a weekly account thereof to the Agricultural Credit Board. After taking out the one-fourth of one per cent allowed it for expenses, the Bank of Portugal must set aside the balance of the profits coming from these advances for creating a fund of \$200,000 to be used for agricultural operations. This fund is intended also to cover losses sus-

tained by the Board in transactions with the agricultural mutual credit banks, and may be used by the Government in any way it deems fit for encouraging agriculture and co-operation.

The communal agricultural mutual credit banks may open branches and agencies. They may also unite to form district banks and these in turn may federate to form a central bank. The Agricultural Credit Board ceases to do business directly with a local bank when a district bank has been organized for it. The district banks are organized exactly like the communal or local banks. In case of dissolution of an unlimited-liability district bank, its assets, if any, are turned over to the Agricultural Credit Board to be distributed among adhering local banks. The same distribution is made of the assets of a limited-liability district bank after paying off the share capital.

The central bank cannot be organized until each district has a district bank. It will be named the Central Bank of Agricultural Credit, with headquarters at Lisbon. Its plan of organization and administration will be determined by the Agricultural Credit Board, and when it begins operations the Board will turn over to it the agricultural fund which is accumulating from the profits derived from the advances to the communal and district banks. It will then dissolve and leave the management of the system in charge of the Central Bank, which will replace also the Bank of Portugal.

* Very slow progress has been made in developing this national agricultural credit system under the 1911 law. Political disturbances and the indifference and distrust of the farmers have caused much interference and delay. Obstacles have arisen also because of the restrictions imposed by the law on loans made by the Agricultural Credit Board to unlimited-liability banks. Very few individual farmers have unencumbered real estate. Many of them farm land held on long leases. These cannot be counted in estimating the credit standing of a bank, and as a consequence in most localities such banks, which are the preferred kind, could

not obtain sufficient funds for their operations. Amendments have been presented to remove these objections to the law

In 1913 there were only 29 agricultural mutual credit banks with 1,015 members, a very insignificant number in view of the fact that 65 per cent of the 5,016,267 of the population of Portugal is agricultural. However, the \$1,500,000 placed by the Government at the disposal of the banks through the Agricultural Credit Board has lowered the interest rate to their members from 20 per cent to five per cent.

The Republic of Andorra is under the protection of France and the Archbishop of Urgel. Its farmers, not being citizens of France, are not eligible to membership in the banks of the *Crédit Agricole Mutuel*, but the nearby banks of the French Federation of the Farmers' and Workmen's Banks with Unlimited Liability are available for them. The Republic of San Marino is enclaved in Italy, and its farmers have access to the Italian Catholic and non-sectarian rural credit societies. There is no rural cooperative credit society in the independent principality of Monaco, nor have any official statistics been published relating to cooperative credit in the independent principality of Liechtenstein.

CHAPTER XXX

BRITISH INDIA, JAPAN, EGYPT, AND THE AFRICAN COLONIES

Conditions in India—The Kùttùchuttu and Nidhis—Work of Nicholson and Wolff—Cooperative Credit Laws of 1904 and 1912.—Development of Societies.—Statistics—Early Mutual Aid Societies in Japan—Law of 1909.—Central Association of Co-operative Societies—Attempts in Egypt—Society of Omar Lufty Bey—Credit System in Algeria and Tunis—Provident Societies—Thrift Societies of French West Africa.—Credit Societies in Java, Windhoek.

WITHIN an area one-third as great, British India has a population nearly three times as large as that of the United States. The land yields a tropical abundance, but is afflicted by frequent droughts and plagues which cause the death rate to exceed the birth rate by nearly one-half of one per cent. The 250,000,000 of inhabitants, comprising numerous races of varying degrees of civilization and speaking many languages, are huddled together with more than 166 souls to the square mile and are so ignorant that only five per cent of them can read and write. The vast majority suffer from periodical famines and live in such pitiable indigence that their sole ambition is simply to keep from dying of hunger. And yet this immense empire of illiterate and poverty-stricken people is supposed to have more gold, gems and jewels than any other nation.

From the days when men first began to quarry and mine, the Hindustani have been collectors of precious metals and stones, for ornamental display by their rulers or superiors and for concealment in the ground or secret vaults for reasons whereof no satisfactory explanation has ever been given. The amount of gold bullion and coin thus buried and hoarded is

incalculable. British India now imports an annual average of \$60,000,000 of gold from Europe, South Africa and America. Lord Curzon estimates that \$2,750,000,000 has been brought in since England assumed imperial dominion, to say nothing of what has come in by way of China and the Orient, and has vanished from circulation, to the sacrifice of at least \$110,000,000 of interest a year.

This absorption and disappearance of wealth are known to have been going on to swell the volume of hoarded treasures of previous centuries. The efforts being made to stop the practice of hoarding meet serious opposition because of the fact that perhaps most of the owners and hoarders are Mussulmans, who, obeying the injunctions of the Koran, refuse to take interest and cannot be induced to put their money to material use. Thus it happens that in India, rich enough to finance all its people, there exist side by side magnificent opulence and abject penury, between which multitudes who are struggling to make a decent living are unable to obtain the necessary capital except at exorbitant interest rates.

An indigenous form of cooperative society for thrift and mutual credit has existed in British India for many ages. This is the *Kûttûchuttu*, in which a number of persons, usually of the same village, subscribe a fixed weekly or monthly sum. The accumulated amount is lent successively to each member, the individual selected being determined by lot at regular intervals, all former winners being excluded from the drawings but being required to continue payments on their subscriptions. *Nidhis*, or loan-fund societies, also sprang up about the middle of the last century. These are exactly like the American savings and loan associations, with the exception that the funds are not necessarily used for building purposes. Mutual or collective liability likewise was sometimes required by the Government as early as 1883 for advances made by the state in hard times for the purchase of seed and cattle for the needy. By a law enacted in that year all the inhabitants of a village receiving such an advance could be made personally responsible for its return.

But the pure European form of cooperative credit did not appear until 21 years later, although some pioneering was done in the meantime. In 1883 Sir Henry Storks first brought cooperative credit to the official notice of the Indian Government. In the early nineties unsuccessful attempts to introduce it were made by the Salvation Army and by Lord Macdonnell in the United Provinces and at Mysore. In 1892 Lord Wenlock commissioned Mr (now Sir) Frederick A. Nicholson on special duty to inquire into the possibility of introducing into the Madras Presidency "a system of agricultural or other land banks." In 1895 Sir Frederick submitted the first volume, and in 1897 the second volume, of a monumental report. This report (unfortunately now out of print) contains an account of all such banks then existing in Europe and the United States and is the best and most complete treatise, particularly of land credit, which has been published in the English language. It is the unrivaled classic in our tongue on the subjects discussed and gives more information as to both facts and principles than any similar publication.

It will be noticed that Sir Frederick's instructions were mainly to study land banks. He carried them out to the letter but made a thorough investigation also of cooperative credit and summed up his report in two words, "find Raiffeisen." This conclusion was reached after consultation with Henry W. Wolff, "whose extensive knowledge of the principles and practice of cooperative village banking," says the report, "are well known, and whose valuable suggestions communicated through the Secretary of State have received our most careful consideration." The report revolutionized thought in official British India, and as a result a law for cooperative credit was placed on the statute books with the assistance of Mr. Wolff, now the most prominent authority on popular credit in English-speaking countries. The spread of cooperative credit in British India since the passage of this law makes one of the most remarkable chapters in the history of cooperation. The number of banks, it is true, is yet insignificant in comparison with the financial needs of

the multitudinous population, but wherever they exist they have stamped out usury, stimulated thrift, and furnished easy money in sufficient quantities to many poor farmers who never before could get a rupee. The success achieved has prompted the governors of all the provinces to declare that the social and economic regeneration of the Hindustani farmers will come through cooperation. Such is the outcome in that enormous country of the study of Sir Frederick A. Nicholson and of his adviser, Henry W. Wolff.

The British India coöperative credit law, which was enacted in 1904 and amended in 1912, outlines in a general way the principles of cooperative credit, allows limited and unlimited liability of members of the societies which it authorizes, permits such societies to form central banks, unions and federations, and empowers the provincial governments to prescribe the rules and regulations for their organization and management. A special act was passed for the protectorate of Baroda. Naturally there are some slight points of difference among the systems in the various provinces, but the societies all belong to either one of the two classes allowed, formerly urban and rural, but now, by the amendment to the law, limited and unlimited.

When the liability is limited by shares, no person may hold shares of a face value in excess of 1,000 rupees (\$324), nor more than a certain portion of the total capital as determined by the provincial government, subject to the general regulation that this portion shall not be more than one-fifth. The by-laws may fix the number of votes which any one member may have. Dividends may be distributed after one-fourth of the profits have been set aside for the reserve. When the liability is unlimited a member has only one vote. All profits must be placed in the reserve until that fund reaches a certain percentage of the outstanding obligations of the society as fixed by the by-laws or the provincial act and until the interest on loans has been reduced below a rate specified in the by-laws. After that a rebate may be distributed among the members in proportion to their loans as determined by the by-laws.

Neither class of society may take deposits from non-members nor make loans to them. There is one exception to this rule, in that a limited society may lend to an unlimited society and an unlimited society may lend to another unlimited society. The privileges accorded to both classes of societies are the same. A cooperative credit society has a lien on the crops or agricultural produce of a member who is in debt to it for money advanced or credit extended to enable him to obtain seed or fertilizer, and also upon any livestock, implements, machinery or raw material sold by the society to a member or bought by such member with money lent by the society. This lien may be enforced against the rights of prior creditors. Every society may do collective buying and selling for members in addition to its banking business, if so provided in its by-laws. A large number of societies exercise this right.

All cooperative credit societies are exempt from the income tax, stamp duties and registration fees. Appropriations have been made so that each society may receive an advance from the state equal to the amount of the deposits of members. The societies of each province are subject to supervision and inspection by a registrar appointed by the provincial government. The duties of this official are far more important than the title indicates, because besides registering, inspecting, auditing and advising existing societies, he is required to organize new societies wherever possible and to propagate the cooperative credit idea generally in his province. In fact, the development and direction of the cooperative movement in British India rest in the hands of the registrars, and they are given wide discretion in the performance of their functions. They frequently allow the central banks to inspect and audit the locals in the first instance but do not yet depend entirely upon their findings. These central banks, which may admit individuals as well as societies as members, are divided into three classes: those which lend exclusively to other societies; those which lend principally to other societies; and those which lend principally to individual members.

In 1911 there were in British India 4,957 rural coöperative credit societies registered under the laws. Their average membership was 28, or a total of 238,978. In addition there were 415 urban societies and 60 central banks. The combined working capital of the rural societies amounted to 11,018,863 rupees (\$3,570,111 61), and loans to 10,389,674 rupees (\$3,366,254.38). One-half (50.2 per cent) of the working capital consisted of loans from other societies, 13.7 per cent of loans from non-members, usually philanthropic persons, savings or commercial banks; 5.5 per cent of loans from the Government; 13.3 per cent of share capital; 14.2 per cent of deposits from members, and 3.1 per cent of reserves. The loans usually ran for one agricultural season. The interest rates varied, the lowest being $6\frac{3}{4}$ per cent in Madras and the highest $18\frac{3}{4}$ per cent in Bengal. But these rates were far below the average outside the coöperative societies, where 24 to 150 per cent is charged. The size of individual loans was \$5.15 to \$32.40. With few exceptions the rural credit societies have unlimited liability, due perhaps to the fact that the members use their savings in making deposits instead of in buying shares in order that their societies may receive larger advances of working capital from the state.

The central banks in 1911 had a combined working capital of 6,040,275 rupees (\$1,957,049 10). Over one-half of this (51 per cent) consisted of loans from non-members; 3.68 per cent of loans from other societies, 1.05 per cent of loans from the Government; 12.81 per cent of share capital; 30.07 per cent of deposits of members; and the rest of reserves. The outstanding loans amounted to 5,703,040 rupees (\$1,847,784.96). The loans ran for over a year but never longer than two years. The interest rates were somewhat less than those of the local banks. No unions or federations have been formed yet in British India, but a few of the central banks serve as such.

Over 60 per cent of the population of Japan is agricultural but only a small portion of the land is cultivated.

The mountainous interior is left to forests and natural growths and the farming is done along the coasts or in the valleys. Cultivation is intensive to the last degree. Over 87 per cent of the farmers make a living for families of four to six persons on garden patches of less than five acres. Three or four crops are raised a year in the tropical and at least two in the temperate regions, so the country depends on importation only to a slight degree for the necessary staples of food and clothing.

Association for mutual assistance is an old practice among Japanese farmers, just as it is in Europe. At the abolition of the feudal system a secret aid society was founded by Shin-en Sato, while about the time that Schulze-Delitzsch started his first bank in Germany, the famous peasant sage, Sontoku Nimimiya, formed the Hotoku-sha, the original Japanese cooperative credit society. Many institutions of this type still exist, organized either as joint-stock companies, associations, or cooperative societies with limited or unlimited liability. Some of them are managed by public authorities, others by private individuals, but all are operated without lucrative object. Their principal business is to maintain warehouses for receiving and grading rice and issuing warrants against it. By this means growers are able safely to store their crop until a good market arises and to derive all the advantages of collective selling. These warehouse concerns also grant loans on the security of the stored rice, and in addition to their regular business, strive to induce farmers to use commercial fertilizer and modern implements and machinery and to exercise care in harvesting, cleaning and sacking their produce. Many hold expositions and demonstration shows and have become strong factors in their localities for the improvement of agriculture generally.

Coöperation of the European kind, however, did not make its appearance in Japan until after the law on cooperative societies was enacted by the Imperial Diet on April 8, 1909. Since then it has made enormous strides. This law, with its amendments, ranks with the best which have been drafted

and is in all respects in keeping with the progressive spirit displayed by Japan ever since she opened her ports to the light of western civilization. Cooperative societies are divided under this law into four classes—credit, purchase, production and sales. Any of the last three may have credit as one of their objects, and, in fact, all objects may be combined in the same society. The societies may choose either unlimited liability, or liability limited to the members' subscriptions, or liability limited to a fixed number of times of the subscription.

A cooperative society must have at least seven members and may limit the number above that minimum. It must confine its operations within an area, usually a commune, fixed by the articles of agreement. The articles of agreement must be approved by the prefect. The rights and duties of members of the society and the rules for admission and expulsion are laid down in the civil and commercial codes.

Cooperative societies may unite to form federations, which may act as supervisors, as regional banks and regional establishments for collective buying and selling for adherents, and as centers for protecting and promoting their common interests and for propagating and developing coöperation. Societies for production, purchase and sales may join credit federations, but pure credit societies may not belong to federations which have any other object than credit. The federations may assume limited liability or a liability limited to a certain number of times the subscriptions of adherents. Each federation's sphere is limited to a province, except where it is authorized by competent authority to operate over two or more small provinces. The managers and inspectors of a federation are elected at the annual meeting from among the officials of adhering societies, unless it be deemed advisable to choose outsiders, in which event the selection must be confirmed by the prefect.

Over all is the Central Association of Coöperative Societies, which serves as the national organ of both the local societies and the federations. This body was formed by vir-

tue of a law which defines its purposes and powers and declares it to be constituted with the view of encouraging the formation of new societies and federations, of improving those already formed, and of facilitating financial and commercial relations among the various units of the system. Co-operative societies are exempt from the payment of the income tax and the tax on business but not from registration fees.

In 1912 there were 9,349 cooperative credit societies in Japan with over 980,000 members, and 30 federations, not counting the central federation. Two of the federations had a liability extended to a certain number of times the subscriptions of adherents, while the rest have strictly limited liability. Of the locals, 47.90 per cent had a liability limited to members' subscriptions, 50.08 per cent unlimited liability, and 2.02 per cent a liability limited to a certain number of times members' subscriptions. The average membership during the past four years was 105 per society, of whom 81.93 per cent were farmers. Of the total number, 2,676 societies had credit and savings as their only object, but 4,625 economic societies also had these objects, thus making 7,301 societies which did a banking business.

On account of this frequent combining of various objects in the same society, it is difficult to give exact statistics of the business done by the credit societies alone. In 1912 the working capital for all societies was \$31,314,525, including sums paid on shares, deposits, reserves, special funds and borrowed money. This figure represents an infinite number of little items and transactions, because the average sum paid in on shares was \$7.93, while deposits of five cents were by no means rare. By last reports the highest interest rate for loans was 18.3 per cent, and for deposits 13.2 per cent per annum, the lowest rates were 12 per cent and six per cent, respectively. These excessive rates for loans, however, are much less than are exacted from unorganized farmers in Japan.

In 1908 Prince Hussein, now Premier of Egypt, appointed a commission in behalf of the Khedivial Society of

Agriculture to study agricultural cooperation and to prepare a bill on the subject for Egypt. A bill was drafted with the assistance of Mr Ribet of the French Department of Agriculture, but it was not accepted by the Egyptian Government. Prince Hussein has not yet accomplished his main object, but he has succeeded in awakening a public interest which now seems likely to develop into a general movement for the introduction of cooperation in Egypt.

Among the members of Prince Hussein's commission was Omar Lufty Bey, who, if the movement continues to substantial results, will be known as the father of Egyptian cooperation, because he founded at Cairo in 1910 the first cooperative society on the land watered by the Nile. This society's object is credit for small traders, and while many farmers are found among its 250 members, it is far from being agricultural. Its organization and business methods, however, have been taken as models for all rural credit societies so far formed in Egypt.

Owing to the absence of the necessary law, Omar Lufty Bey could not establish his society on the collective liability, limited or unlimited, of its members. He had to form it as a joint-stock corporation. But in order to give it some cooperative features he inserted two articles in the charter which provide that shares may not be transferred except with the consent of the managing board of the society, and that credit may be accorded only to members, unless the funds are in excess of their requirements, when loans may be made to outsiders. This society had in 1912 a paid-up capital of \$35,000, and upon this made \$105,000 of loans. These figures are too small to have any material effect upon the multitudes of moneyless and debt-encumbered *fellaheen*, but the fact that the society can lend at $7\frac{1}{2}$ per cent interest and make handsome profits in places and among a class of people where the Greek usurers will not let their money go for less than 20 to 25 per cent per annum, furnishes a striking example of the potency of cooperation even when it is held together simply by the spirit unsupported by legalized form.

Only a few days after Omar Lufty Bey founded his so-

ciety, an exclusively rural coöperative credit society was started at Shubrah-el-Namlah. This also was successful, and by granting its 97 members one-year loans at six per cent proves conclusively that usury can be abolished by cooperation even among the smallest farmers along the Nile. This society does most of its business by buying seed, fertilizer, and coal to sell to members at three per cent above the purchase price for cash, or at seven per cent above on credit. In 1912 there were nine agricultural credit societies in Egypt organized like the first of those described and operating like the second.

In 1901 the French Government created an agricultural mutual credit system in Algeria and supplied it with funds by a method similar to that used in the mother country. The Bank of Algeria was required to place \$600,000 at the disposal of the regional banks and engage itself to certain annual payments in addition thereto. In 1910 there were 41 regional and 228 local banks with 10,663 members. Up to that year the Bank of Algeria had turned over to the state \$1,050,000, most of which had been advanced to the regional banks for nine years without interest. Their combined capital was \$272,013, and reserves \$104,299. The banks admit natives and Europeans indiscriminately.

The system was extended in 1904 to Tunis, where there are now one regional bank and 22 local banks with 671 members. The regional bank of Tunis has a capital of \$16,000 and the state has advanced it four times that amount without interest out of the funds coming through the Bank of Algeria. Interest rates on loans for members in both countries are generally 5.5 per cent.

Very few natives belong to the cooperative banks in Tunis, for the reason that the Mohammedan religion forbids the taking of interest. Special institutions have been established for the natives, which are called provident societies. They are managed by the native chief and government officials and are financed by an extra land tax levied on the natives. Part of their funds are also composed of donations,

legacies and the state subsidies from the Bank of Algeria. Some of these societies have departed from strict observance of religious principles and borrow money when needed and make loans to members. But their main and ordinary business is to make loans in kind and relieve members in distress. About 150,000 natives belong to these societies and are able to get advances for food and seed at 12 per cent on short time and 11 per cent on long term, if secured by real-estate mortgages. Formerly the natives paid 18 to 150 per cent.

In 1910 the Governor of French West Africa promulgated a decree for the formation of thrift societies, mutual aid societies and land credit societies for the natives. A six months' residence in a district is a necessary qualification for membership. The wording of the decree indicates that membership is compulsory for all such persons. The interest rate on loans in money is limited to five per cent per annum and on loans in kind to 25 per cent per annum.

In a few of the other colonies of European Powers coöperative credit has been organized. A rural credit society of the Raiffeisen type was formed in Java in 1904 by de Wolff von Westeroode, a public official of the Dutch provincial government. A credit society with liability limited to about 30 times the face value of the shares exists in Windhoek, the capital of German Southwest Africa. It has 125 members and belongs to the Imperial Federation of Germany. There is one credit society in Guinea, one in the Barbadoes, and one in Jamaica, all following more or less closely the Raiffeisen type.

CHAPTER XXXI

GREAT BRITAIN, IRELAND, CANADA, AND THE UNITED STATES

Irish Agricultural Organization—Sir Horace Plunkett.—Doneraile Credit Society—Progress of Rural Cooperative Credit Not Satisfactory—Agricultural Organization Society for England and Wales—Organization and Management—Scottish Agricultural Organization Society—Caisse Populaire of Quebec.—Legislation of 1906—Cooperative Credit in French Canada.—Cooperative Credit Among Jewish Farmers of the United States—General Agitation of Rural Credit Idea—Jewish Rural Cooperative Banks—Other Cooperative Attempts by Jews in North and South America.

THE agricultural cooperative movement in the United Kingdom is guided by the Irish Agricultural Organization Society, the Scottish Agricultural Organization Society, the Agricultural Organization Society for England and Wales, and the Joint Board for Agricultural Organization, which links them all together. These four bodies have for their exclusive object the aid and development of agriculture and rural industries through cooperation. They are strictly non-profit making, since the law under which they are chartered forbids such associations to engage in lucrative business. The trading end of the movement is cared for in England and Wales by the Farmers' Central Trading Board, which in its turn is linked up with similar boards in Ireland and Scotland by the Joint Agricultural Board of Trade for the four countries.

The movement directed by this excellently arranged system was started in Ireland in 1889. Although prosperous now, through the introduction of coöperation, the land-purchase acts and other legislative reforms, the misery of Ire-

land at that period is well known. "The country," said Harold Barbour, "had appealed to God, to the state, to humanity, for sympathy, for aid, for dollars, and had become a mendicant among the nations." Steps had already been taken, it is true, to solve the land question, but the "fair rents," although fixed by the courts at reasonable figures, were more than the tenants could pay. Nearly one-half of the inhabitants of Ireland had emigrated beyond seas, and most of those who remained were living in mud huts or squalid hovels, inflamed with mutinous rage against the Government. The plight of the farming classes was the most wretched of all, for on account of their crude methods of cultivation and marketing, foreign competitors were underselling them in the staple products for which the soil was best adapted and the meager gains were shared between the landlords and the "gombeen" men.

In the midst of this distress, when the decaying state of agriculture was demoralizing the Irish farmers economically and socially, Mr. (now Sir) Horace Plunkett, who had been ranching for a number of years in western United States, returned to his native land and resolved to devote his life to rescuing the Irish farmers from their miserable situation. This was, in his opinion, due in a large measure to their own improvidence and disinclination to farm and market their crops in a scientific and modern way. Sir Horace was familiar with what had been done by Raiffeisen in Germany, and, inspired by his principles, with a few enthusiastic pioneers he mapped out a campaign to persuade the Irish farmers to organize agriculture on cooperative lines and to induce the state to give to them the same kind of assistance which the German farmers received from the Government. By 1894 the campaign had progressed sufficiently to show that cooperation was congenial to the Irish spirit, and the Irish Agricultural Organization Society was formed at Dublin under the presidency of Sir Horace Plunkett to direct and further the movement.

This Society for propaganda and organization work solicits and has received aid from the state but it is not con-

nected with the Government. It is composed of private individuals and affiliated local cooperative societies and depends in the main upon their fees and voluntary contributions for support. Since its foundation the Society has expended over \$500,000, and never has money been spent for better purpose or to greater effect. At the beginning of 1912 there were in Ireland 934 rural coöperative societies with 97,318 members. Their annual turnover exceeded \$12,000,000, and the total turnover since the first society was formed has reached nearly \$100,000,000.

The first Irish coöperative association was a creamery, and creamery associations still constitute the largest class among Irish cooperative societies. The first credit society was not started until February, 1895, when the movement was over five years old. Plunkett, who had read Henry W. Wolff's books on agricultural banks, attended a meeting on cooperative credit in London, which was addressed by Mr. Wolff and was deeply impressed by what he heard. "You have converted me," said he to Wolff, "and I want you to come over and convert my colleagues." Mr. Wolff went to Dublin, convinced the Irish Agricultural Organization Society that credit of the Raiffeisen type should be developed along with the general cooperative movement, and the Doneraile bank was the result.

The area of the Doneraile credit society is so restricted that the members are all acquainted with one another. They are liable without limit for all obligations the bank incurs. The loans are made only for productive or provident purposes, and must be used for the specific object for which they are granted. They are for short terms adjusted to the needs of each case, and draw five to 6 $\frac{1}{4}$ per cent interest, but are never granted except on the security of two indorsers. The society distributes no dividends, bonuses or rebates. Profits are written to the reserve with the hope of making that fund sufficient in time for all operations and for reducing the rate of interest to borrowers. Money for loans comes from the commercial banks, depositors and the state. No person may be a member unless he is sober, industrious, of

a friendly nature and known to be strictly honest, and it is the duty of the management, composed of a chairman and a committee, to see that only such persons are admitted. No one in the management except the secretary receives compensation.

There are at present in Ireland 236 rural cooperative credit societies with 19,505 members, all organized and managed like the one at Doneraile. The officers in many instances are priests or school teachers who joined the societies especially to serve in that capacity. The commercial banks make advances to the credit societies at a uniform rate of four per cent irrespective of the fluctuation of the rate of the Bank of England. The societies pay between three and four per cent on deposits, and all have received sums of \$250, \$750 or \$1,000 for initial expenses from the state or county councils in the way of loans at 3 per cent. About one-fourth of their working capital is now obtained from these public sources, and in the early stages over one-half was so obtained.

In spite of this outside assistance rural cooperative credit has not made satisfactory progress in Ireland. Of the total number 176 rural credit societies are active, the rest being merely skeleton organizations or in a stagnant condition. Only 80 per cent of them render annual reports to the Irish Agricultural Organization Society, which is supposed to audit their accounts and supervise their affairs. Renewal of loans is a flagrant practice, and the state has been compelled on 28 occasions to resort to the courts for the recovery of its advances. These advances and the deposits lie idle in many societies, causing a loss of interest which eats up all profits in 31 of them. The Irish Agricultural Organization Society attributes the trouble to the fact that most of the credit societies operate on too small a margin and that the managers prefer to do no business at all to doing it without profit. Fires and unexpectedly heavy expenses have occasioned losses in some cases. The Society does not seem to think that state aid may have weakened the spirit of self-help and independence. Critics of the Irish system, however, are inclined to

lay stress upon this point. They also believe that the Irish credit societies should be given trading powers. No rural credit system has succeeded greatly except where the credit societies do collective buying and selling or else are syndicated by identity of membership with purchasing and distributing societies. Farmers will not organize credit societies or assume the expense, care, risk and responsibility of their management unless such banks are empowered to utilize the funds obtained by shares or deposits for some definite objects of economy and convenience. Thrift stimulated by dividends or interest, so effective in the cities, is no inducement to farmers, who, as a rule, find immediate use for all money they make and so have none to lay aside in the banks for loans to others at the rates they are able to offer.

The Agricultural Organization Society (London) for England and Wales was formed in 1900 by the coalition of the National Agricultural Union formed by Lord Winchelsea in 1892 and the British Agricultural Organization Society formed in 1899 by W. L. Charleton, a pupil of Sir Horace Plunkett. In the beginning this body was a counterpart of the Irish Society and was composed of private individuals. In May, 1912, however, it was entirely reconstructed, and became a semi-public institution managed by a board of 36 governors, of whom 12 are appointed by the Board of Agriculture and Fisheries, two by the County Councils Association, two by the Coöperative Union, two coopted by the governors, and 18, including the president, elected by affiliated societies. The county councils also are strongly represented on the committees which manage the branches of the society in the various districts. The Coöperative Union existed before cooperation spread to agriculture in England and is composed mostly of urban societies.

The conversion of the Agricultural Organization Society from a private to a semi-public institution was prompted by its desire to receive subsidies from the state. The act relating to the Development Commission provides that the Treas-

ury may make grants or loans to any association of persons which the Commission may recommend. The Commission demanded that the changes mentioned should be made before it would recommend it to the Treasury, so the Society acted accordingly. The subsidies were desired chiefly for promoting small holdings and allotment cooperative associations. Sixteen of these associations have been formed. Thus the activities of the Agricultural Organization Society for England and Wales extend to real-estate credit, and this together with its semi-public character are the chief points of difference between it and its Irish prototype. Nevertheless, it depends mainly on voluntary contributions and the fees of affiliated societies for financial support. It publishes an official organ *Cooperation in Agriculture*, a periodical similar to the *Irish Homestead*, published by the Irish Society.

In 1913 there were 476 cooperative societies belonging to the Agricultural Organization Society, with 45,000 members, and all imposed unlimited liability. The aggregate money value of their transactions for the preceding year was nearly \$10,000,000. Of these societies 46 with 800 members were for credit. Their total turnover was less than \$10,000. Only 21 of them made loans, and the aggregate was under \$7,500. So rural cooperative credit in England and Wales, as in Ireland, is making poor progress. The reasons assigned for its slow growth are the reluctance of the farmers to borrow in cash, to show their financial needs to their neighbors, and to assume unlimited liability. Moreover there does not seem to be any pressing necessity for cooperative credit societies, since the ordinary banks and merchants are willing to extend credit where required on easy terms at fair interest rates.

A central bank was organized for the cooperative societies of England and Wales in 1908. This is a joint-stock company with liability limited by shares, of which no individual may hold more than \$1,000. Affiliated societies may hold above that amount. Dividends of more than five per cent per annum may not be declared. The establishment of this bank,

however, was premature, and it has not been of much use. In 1913, after the Central Cooperative Bank proved useless, the President of the Board of Agriculture and Fisheries induced 20 leading joint-stock banks with branches in rural districts to sign a letter offering to assist in the formation of rural cooperative credit societies and to grant them loans and take part in the annual audit of their accounts, allowing them to have the free services of the banks' treasurers, on the understanding, however, that this would not involve membership in the societies. The loans which the banks are willing to grant are subject to recall on demand and may not extend for over one year.

The Scottish Agricultural Organization Society (Edinburgh) was formed in 1905. It is composed of voluntary contributors and affiliated societies, and is a private association like the Irish Society. In 1913 there were 106 cooperative associations belonging to the Scottish Society, but none of them was for credit. The abundance of facilities afforded by the branches and agencies of the ordinary banks is the reason given for the absence of cooperative credit societies in Scotland.

The first coöperative bank on the American continent was started at Levis in the province of Quebec on December 6, 1900. As there was then no law on coöperation in the Province, this bank, called the Caisse Populaire, was formed simply as an association. The first sum which it received was ten cents, paid by one of its members in an instalment on his share. At the end of the first month it had taken in only \$242 80, but in 1912 the amount paid in on shares was \$114,343, and on deposits \$53,564, while its reserve was \$11,741 53. On June 30, 1914, the total assets were \$304,985 92. The turnover for the preceding 12 months was \$2,107,394 77, while the 7,208 loans granted to that date aggregated \$1,396,916 66. About one-half of these loans were for sums varying between \$10 and \$100. To give exact figures, out of 3,549 loans, 691 loans were for \$10 or less,

898 for \$25 or less, 961 for \$50 or less, 493 for \$75 or less, and 96 for \$100 or less. It is claimed that the other half of the loans were for similar small sums.

Thus the Caisse Populaire is distinctly a bank for small credit, as its name indicates, for the people. It has never lost a cent. It now has 1,240 members among the town and country folk in its vicinity, and its influence has spread far and wide from Levis. Its success and fame has inspired the formation of 120 banks of the same kind in Quebec, 19 in Ontario, and 30 in the United States, and has brought about the enactment of a law for cooperative associations in Quebec and also a law on credit unions in Massachusetts, which was taken as the basis of the legislation on cooperative credit in New York, Wisconsin and Texas.

The founder of the Levis bank was Alphonse Desjardins, who still is its president and the promoter of many of the other banks. Mr. Desjardins began the work which has led to these remarkable results after 15 long years of study, during which he made an exhaustive investigation of the cooperative credit systems in Europe and consulted the most renowned of the European leaders in cooperation. The plan which he finally adopted was based on the principles of Luzzatti of Italy, and imposes no liability whatever on members for the obligations of the bank. The form of the administration and management, however, says Mr. Desjardins, "in the main is exactly the same as that which is found in the uncapitalized savings banks in the United States, with the exception that the deposits are used by the very persons who make them."

Owing to the absence of proper laws on coöperation in Canada, Mr. Desjardins remained in doubt for some time as to whether to make a practical application of the ideas he had evolved, but Mr. Henry W. Wolff, the authority on coöperation in England, advised him to go ahead without the laws. This advice was followed, and Mr. Desjardins became the American pioneer of cooperative credit. Mr. Wolff has recently declared that the origination of the Canadian type of bank entitles Mr. Desjardins to as much praise as has

been bestowed on the founders of the systems of France and Italy. The cooperative form of organization and administration appeared in the United States through the building and loan associations, however, many years before Mr. Desjardins used it for personal credit in Canada.

The operations and members of the Caisse Populaire are confined to a single parish, and women and children as well as men may join, no matter how small their contributions may be. Mr. Desjardins has succeeded in making his bank a social institution for encouraging habits of thrift and assisting the worthy poor who are in need of credit. The services of the bank, both as regards the granting of loans and the receiving of deposits, are restricted to members, and in this respect it differs from most of the European banks which accept deposits from anybody. The interest rate on deposits is generally three per cent. The Caisse Populaire has no religious character, but practically all its officers and members are devout Catholics.

The shares are five dollars each, and may be paid up in monthly or weekly instalments. A member has but one vote regardless of the number of shares he may hold. Withdrawals may be made practically at will, and there is very little difference between the paying in of money on shares and on deposits. A month's notice is all that is required of a member who wishes to have his money returned on his shares. Dividends are distributed, the rate ordinarily being four or five per cent. Since the shares are withdrawable, the capital of the bank is not fixed, as in a joint-stock company, but is variable and fluctuates in size as members come in and go out. Mr. Desjardins adopted this feature because he expected that his bank would be supported and used by small folk, and he realized that this class is unable to immobilize its resources and would perhaps be deterred from joining unless it had the privilege of regaining possession of them if desired. As he says, the only distinction between a share and a deposit is that the former is made up of savings with a view of meeting future contingencies more or less remote, while the latter is put aside for almost daily use.

Members have no liability except for the amount unpaid on their shares. The bank has protected itself against possible losses by creating a reserve into which at least ten per cent of the profits are placed every year. In case of dissolution this reserve would not be distributed among the members, but would be used for some work of public utility designated by the Lieutenant-Governor of the Province of Quebec.

The management of the bank comprises a board of directors, a committee on credit, and a board of supervision, elected at the annual meeting of the members from among themselves. Voting by proxy is not allowed. The term of office is so arranged that a certain number retire annually. The board of directors consists of nine members. It appoints one of its members to be president and general manager, and this person has been Mr. Desjardins since the foundation of the bank. He is *ex officio* a member of the committee on credit, and is the only officer allowed to be on two of these bodies at the same time. Besides having general charge over the affairs of the bank, the board of directors decides upon the admission and expulsion of members and acts as a tribunal to arbitrate disputes between members in cases provided by the by-laws.

The board of supervision, which consists of three members, is the most important body in the bank next to the shareholders regularly assembled. Its duties are indicated by its name. It must examine the accounts of the bank and the loans and securities, and see that each officer conducts himself properly. It may even suspend an officer, but in that event must immediately call a meeting of the members finally to decide upon the matter.

The committee on credit consists of four members. Its sole duty is to pass on the applications for loans and to see that repayments are promptly made or good reasons given for the defaults. No loan or renewal may be granted unless all members of the committee approve it. But the applications are not addressed directly to the committee. They must be submitted to the president, who sends them up to the committee. The president, being the manager, is the

most active official of the bank, and he is the only one who receives pay. All business done by the bank with the members must be conducted through him, subject to the supervision and control of the boards. No loans may be made except for productive or provident purposes. Repayments are made by instalments if a loan runs for a year or longer, and the borrower always has the right to pay in advance. Security in the form of indorsement by one or two other members may be required. The interest rate on loans follows the market, whereas at Levis in the days before the Caisse Populaire existed the cruelist kind of usury was practised among the classes from which the bank recruits its members.

There is no Canadian legislation for cooperative associations outside of Quebec. The law in that province, which was enacted in 1906, incorporated in its clauses the arrangement of the Levis bank as to organization and management, and provides that an association for supply and production as well as credit may be formed by 12 persons simply by filing articles of agreement with the secretary-treasurer of the municipal council having jurisdiction over the place where the headquarters are located. The area for carrying on operations and recruiting members is limited to a provincial electoral division, except that in cities embracing more than one such division, the area may be that of the entire cities. But in spite of this restriction an association may conduct business outside of its territory when absolutely necessary for accomplishing its object or carrying on its affairs. All the benefits of the association must be confined to members. Agricultural societies, agronomic groups and municipalities are able to become members of an association and hold shares therein. Honorary members and officers also may be admitted but can take no part in the management or enjoy any of its benefits. Shares cannot be less than one dollar. Holders who are corporations, municipalities or other associations may vote by proxy.

The shareholders must meet at least once a year, and may proceed to do business no matter how many members have responded to the call, since no size may be set for a quorum.

The board of directors must consist of at least five members. The by-laws shall prescribe whether they are renewed by one-half or one-third every year. They choose from among themselves a president, vice-president, secretary and manager, who act as such for the association during the year. The board meets as often as occasion requires upon call of the president or of two of its members. The board of supervision must consist of at least three members, and the by-laws may prescribe that one of them shall be renewed each year. The board has the power to convene the members in special session whenever it deems fit. The committee of credit must be composed of at least three members, and they may be renewed by one-half or one-third each year. None of the members of these boards or the committee may borrow directly or indirectly from the association or indorse a loan. Every association should aim to create a reserve. Ten per cent of the profits must be placed in the reserve until it reaches at least the amount of the liabilities. When this figure has been attained only five per cent need be devoted to the reserve, but this latter percentage must be continued until the reserve is double the liabilities.

All the cooperative banks in Quebec are regulated by this law, and those in the other provinces have been organized and conduct themselves according to its terms. These banks numbered 139 in 1913, with a membership of 65,700, and had assets of \$1,945,000. The amount of the loans granted was \$3,560,800. The number of loans was between 14,000 and 15,000, showing that the average size is between \$237 and \$250. Over \$8,700,000 of loans has been accorded since the first bank was started 14 years ago, not one cent of which has been lost. No bank has ever even made a loan of doubtful value.

A movement for cooperative credit has now become general through French Canada, but it began only five years ago. The delay was due to the fact that Mr. Desjardins, who is the father of nearly all the banks, had only a few months to give to the work each year. And above all he thought it best to proceed with caution. "We wished," said he, "to

make the experiment complete and conclusive before attempting to spread this new idea. So during eight years and more, with the exception of two cases, where, owing to proximity we could watch the operations of these banks, we always refused to listen to the requests which were made to form banks elsewhere, replying that we should willingly go only after experience had proved that our plan responded to a real need and would flourish among the people." This having been carefully proved by eight years of trial at Levis, Mr. Desjardins then opened an active campaign of propaganda, and under his guidance the number of the banks has been rapidly increasing during the past three years. Eighty of them now have a membership composed exclusively of farmers.

The first, and so far the only, organized effort to establish coöperative credit among farmers in the United States is that which is being made by the Jewish Agricultural and Industrial Aid Society, a benevolent association chartered in 1900 under the laws of the State of New York to take over the agricultural branch of the work of the Baron de Hirsch Fund, another benevolent association chartered in 1891 in the same state to administer the \$2,400,000 donated by Baron Maurice de Hirsch on the condition that its income should be applied to assisting Jewish immigrants driven from their homes by political or religious persecutions. These two associations take care of all cases of destitution which appear to need their help, and they have been important factors in diverting to American shores the refugees from the periodical pogroms of Russia, who have been coming in such large numbers since 1889 that today the United States has a Jewish population second only to that of Russia and seems destined to have the greatest in the world. As one of their leaders says, "this country presents to the Jewish emigrant better opportunities in every field of human endeavor than any other place to which fate has directed his steps."

The Jewish Agricultural and Industrial Aid Society obtains the money for its operations and expenses from the

Baron de Hirsch Fund and the Jewish Colonization Association, the Baron's residuary legatee. In 1907 the Society eliminated from its consideration the industrial activities of immigrants so as to be free to develop entirely along agricultural lines, and it then so enlarged its scope in the latter respect as to become the head of the propaganda and organization work for Jewish farmers, immigrant and native, throughout the United States. This change of policy and programme was brought about by Leonard G. Robinson, who in that year was appointed the general manager of the Society.

Mr. Robinson, himself a Russian immigrant, is a graduate of Harvard University and the New York Law School, an education secured wholly by his own ambitions and unremitting exertions. In his control the Jewish Agricultural and Industrial Aid Society gathered strength and broadened its purposes. Moreover, Mr. Robinson's plan of action was matured when he assumed the duties of manager of the Society, since he had been identified with it in a minor capacity for the previous two years and had availed himself of this opportunity to study its needs and possibilities. One of the objects specified in the Society's charter was to encourage the formation of cooperative creameries, factories and storehouses, and this gave Mr. Robinson his cue. In his reports of 1907 and 1909 he called the attention of the board of directors to the advisability of extending coöperation to credit.

About this time rural cooperative credit was just beginning to be agitated in the United States and the first indications of the present movement were making their appearance. But while the movement was in its initiatory stages, Mr. Robinson actually formed rural cooperative banks for the members of the Jewish Agricultural and Industrial Aid Society. The first was started on May 1, 1911, at Fairfield, Connecticut. Two others were started in the same year, five more in 1912, and by the end of 1913 the number had increased to 18. Owing to the absence of cooperative legislation at the time, these banks were formed simply as voluntary associations. In organization they are simi-

lar to the Quebec banks of Alphonse Desjardins. The shares, five dollars each, are in the nature of certificates of deposit, payable in weekly or monthly instalments, and may not be issued until fully paid up. They impose no obligation for compulsory savings, nor are they intended to involve the holder in unlimited liability for the debts of the bank. The share has no voting privilege. This attaches to membership alone, and no member may have more than one vote no matter how many shares he may hold. Initiation fees may be exacted and dividends declared, but 25 per cent of the net profits must be written to the reserve each year until this fund equals the paid-in capital.

The supreme power in the banks rests with the members regularly assembled, and they meet at least once a year to elect officers and to make final decisions on all questions which come before them. The administration consists of a board of seven directors who hold office for one year, three of their places becoming vacant and being refilled each year. The president, vice-president, secretary, treasurer, and the three supervisors constitute this board, have charge of all the affairs of the bank, and serve as the credit committee to pass on applications for loans and attend to the outstanding loans. Mr. Robinson's banks do not separate the control, management and supervision into three distinct bodies to act as checks against one another in the way which generally prevails in European cooperative systems. The banks do not receive deposits. Their business is confined to granting loans to members for amounts and terms not exceeding \$100 or six months. Every loan must be secured by the promissory note of the borrower indorsed by one or more responsible parties.

The members of the banks are all Jews, and as a rule are also members of some other Jewish cooperative or social association in their neighborhood, which are banded together into the Federation of Jewish Farmers of America. This body, which Mr. Robinson plans eventually to make the central organization for all Jewish farmers in America, is governed by officers elected by the adhering associations and

a few individual members In general purpose it is similar in its small scope to the Imperial Federation of Germany, but in addition it maintains a purchasing bureau for buying farm equipment and supplies, and supports itself mainly by a small percentage added to the wholesale prices at which it makes sales to members and adherents

These 18 Jewish banks in June, 1914, had a total membership of 549, the smallest had 21 members and the largest 48 The number of shares issued was 1,889, of a face value of \$9,445. The assets aggregated \$29,488, which was \$1,887 more than the liabilities The total of loans granted to date was \$120,416 and the amount outstanding was \$27,036. No losses have been sustained by these Jewish banks. Each bank has received an advance at two per cent of twice its paid-up capital from the Jewish Agricultural and Industrial Aid Society. The number of members belonging to these little banks appears insignificant, but it assumes importance when viewed with the fact that there are only 3,718 Jewish families living on farms in the United States This means that more than one out of every six heads of families is a member of a cooperative credit bank. There are estimated to be 18,590 souls in these families, a mere drop when compared with the entire rural population, yet they are the fore-runners in the United States of an organized agricultural cooperation based on the credit society.

There were Jews in America when New York was a Dutch possession. A Jew, Abraham de Lyon, introduced silk and vine culture into Georgia from Portugal, and Major Manual Noah, the famous Jew of the Revolution, appears to have been the first to attempt to establish cooperative farm colonies in the United States In 1820 Major Noah bought 17,000 acres on Grand Island in the Niagara River, and granted allotments to a group of his coreligionists Nothing of this colony remains but a corner-stone In 1881, 60 Russian Jewish families were colonized on 5,000 acres on Sicily Island, Louisiana A flood swept away their belongings and they dispersed In 1882 other colonies were established in a number of states. Twenty families were located in what

is now Davison County, South Dakota. The Hessian fly, droughts and hail destroyed their crops and so they left. Thirteen families were placed on government land in Summit County, Colorado. Mountain torrents menaced their lives and they too abandoned their colony. A few settlers gathered in Douglas county, Oregon, but stopped farming and took to selling railway ties, when the railroad was completed they boarded the train and disappeared. Seventy-two families preempted homesteads in Burleigh County, now North Dakota. Prairie fires and bad crops caused them to give up the struggle, and most of them became residents of Devil's Lake. A colony in Hodgeman County, Kansas, and three other colonies were disbanded in 1886.

Of all the colonies founded prior to 1890, only the colonies in New Jersey survive, and they are industrial as much as agricultural, their members working in cooperative shirt factories and cigar factories. The colonies more recently established, however, are distinctly agricultural, while the groups which are rapidly supplanting the native stock in some of the counties lying near to New York City confine themselves to farming, and are showing adaptability to agriculture. They are mostly cooperative.

In 1911 there were known to be 828 families of Jewish farmers in western Canada, most of whom were living in cooperative groups. In Argentina a Jewish agricultural colony was founded at Entre Rios in 1849 by Baron de Hirsch. There are now 3,777 Jewish families on farms in Argentina, and 50 families in Brazil. The number of Jewish farmers in all Europe west of Russia is estimated at less than 3,000.

CHAPTER XXXII

THE PRINCIPLES OF COÖPERATIVE CREDIT AND THEIR APPLICATION

Spread of Coöperative Credit in Europe and Asia.—Building and Loan Associations and Savings Banks in the United States.—Mutual and Cooperative Insurance.—No Rural Cooperative Credit Systems in This Country.—Characteristics of European System.—Two Classes of Rural Credit Societies. Limited Liability with Shares and Unlimited Liability Paying No Dividends.—Simple and Uniform Legislation Desirable.—Function of Cooperative Systems to Receive Deposits and Accord Credit on Security Other Than Real Estate.—Popular Misconceptions as to European Societies.—Advantages of a Cooperative Credit Society.—Credit for Members and Collective Purchase and Sale.—Threefold Structure of European System.—Procedure in Formation of a Rural Coöperative Credit Society.—The Development.—Necessity for New Laws in United States.

ALTHOUGH coöperative credit without real-estate security has been implanted in all European countries except Norway, Denmark, Luxemburg, Monaco and Greece, has been introduced into Africa, Asia, America and some island colonies, and is now being agitated for agriculture throughout the civilized world, it is nevertheless of recent growth in most countries, and has attained great success in only a few. Nowhere has its first organization been due to the farmers or those directly benefited by it. Its original organizer in each country has been some one man or set of men above the necessity of borrowing through it and not engaged in agriculture.

In Germany it was Schulze-Delitzsch, a judge, in 1850; in Austria, Ziller, an economist, in 1858; in Belgium, d'Andrimont, an economist, in 1864; in Italy, Luzzatti, an economist, and in Russia, Louguinine, a priest, in 1865; in Hun-

gary, Count Karolyi, and in Switzerland, Traber, a clergyman, in 1887, in France, Durand, a lawyer, in 1893; in Bulgaria, an instructor, and in Servia, Amramovitch, an economist, in 1894; in Roumania, the state, in Holland, the Catholic clergy, and in Ireland, Sir Horace Plunkett, in 1895; in Canada, Desjardins, a journalist, in 1900, in Spain, Gomez, a priest, in 1901, in British India, the state, in 1904; in the United States, Pierre Jay, banker, in 1909; in Japan, the state, in 1909; in Egypt, Lufty Bey, an economist, in 1910. In every other country, likewise, it was some public-spirited man acting singly or with others who organized the first cooperative credit society. This first society was not agricultural in all cases. As a rule the farmers did not use cooperative credit until the city folk had shown the way.

The countries in which coöperative credit is most highly developed are Germany, Austria, Belgium, Russia and Italy, where also it has existed the longest. It has made substantial progress among farmers in Switzerland, Japan and British India, and under state aid in France and Hungary. In the last two countries the credit societies do not attract enough deposits and share capital for their operations, nor do they obtain many loans from private sources, and it is problematical what would happen if the aid of the state should be withdrawn. In Servia, Roumania and Bulgaria recent wars have stopped its advance, which was very rapid during the preceding decade on account of the aid and intervention of the state. The annual figures of the number, assets and membership of the credit societies in Germany and Austria are very large, but the record of neither of them equals that of the United States in cooperative finance and mutual banking. In 1912 there were in the United States 6,273 building and loan associations, with 2,516,936 members and \$1,137,600,648 of assets, and in 1913 more than 623 mutual savings banks, with 8,101,238 depositors and \$4,104,639,651 of resources. The building and loan associations are organized for thrift and a specialized kind of credit based on urban real estate, and the mutual savings banks for thrift and for credit not necessarily accorded by preference to members.

In neither class of institution is credit agricultural or so diffused as in European cooperative systems; nevertheless, the figures of the American institutions surpass those of all Schulze-Delitzsch and Luzzatti banks in Europe and the German landschafts combined in respect to the number of persons and aggregate of wealth

In making this comparison between numerical strengths the depositors of the American mutual savings banks have all been considered as members. This is not entirely correct, for most of the mutual savings banks are managed by self-perpetuating boards of trustees, while the credit they accord does not go by preference to depositors. The same objections may be raised, however, against those Schulze-Delitzsch and Luzzatti banks which have grown so large that all members do not exercise their voting privileges. There is very little difference in spirit and business methods between such banks and the American mutual savings banks, since in both the granting of loans to members is secondary to the encouragement of thrift, the accumulation of deposits and the safe and profitable investment of assets. The rise of the Schulze-Delitzsch and Luzzatti banks was due to the fact that at the time of their origin there were in Europe comparatively few privately managed banks for small savings. Today the larger portion of the deposits of the plain people in Continental countries go into public or communal savings banks and postal savings banks, and are invested in government bonds or placed in the possession of the government so that the state may have control of them in the event of national emergencies. The moving purpose of establishing these urban cooperative banks often has been to transfer banking from public or semi-public banks into the hands of the people and to give them the management and use of their own money. An element of social and political reform is not uncommon in European cooperation. The people's banks of the Schulze-Delitzsch and Luzzatti types in a measure occupy in their respective countries the place held in the United States by the mutual savings banks, the medium-sized national banks and state-chartered banks.

Generally speaking they are not small credit institutions for feeble folk. Their membership is recruited from the same classes of people as belong in the United States to the building and loan associations and the savings banks. The American enthusiasts who are hoping to improve the condition of the shifting and thriftless population by means of cooperation will be disappointed to find that this has been accomplished in Europe only in spots where the work is sustained by the ceaseless and unrequited toil of philanthropists devoting themselves to the arduous tasks as priests to their mission.

Besides being supreme in coöperative finance and mutual banking, the United States outranks the world also in mutual and cooperative insurance. There are in force in the United States close to \$25,000,000,000 of policies in such insurance companies, not including the 1,867 farmers' mutual insurance companies of various kinds, whose numbers are rapidly increasing in the upper Mississippi Valley. The New York Life, the Mutual Life, the New England Mutual and the Northwestern Life insurance companies, to mention only a few examples, are cooperative except for the one point that voting may be done by proxy. With their hundreds of thousands of policyholders and hundreds of millions of assets they are not only the greatest cooperative institutions but are also among the greatest and soundest and in actual results the most benevolent institutions in the world. The figures for insurance alone in the United States make those of cooperation and mutuality in other countries appear of secondary importance. The cooperative features of the administration and management of an institution, however, invariably become correspondingly less as it increases in size, no matter how much care has been taken in making the organization perfectly coöperative. This is true of a bank or of any other kind of concern. The majority of the policyholders of the large American insurance companies do not exercise their voting privilege, have no personal acquaintance with their officers, and know very little about the principles of insurance or the ways in which their funds are invested, and thus

through the lack of interest of the policyholders the coöperative spirit is weakened. This does not mean necessarily that their affairs are handled any the worse because of that fact. It simply shows that undiluted cooperation cannot be practised except by relatively small groups of persons

Mutual telephone companies have had a remarkable development among American farmers during the last score of years; hundreds of them are now in existence. American farmers have 2,165 coöperative creameries, 336 coöperative cheese factories and 2,026 coöperative elevators and granaries, besides many fruit growers' associations and purchasing and selling agencies organized or operated on a coöperative plan. The progress already achieved by the United States in mutual and coöperative finance, banking and insurance in the cities and in rural cooperation for insurance, production and distribution is frequently overlooked, but it has a bearing of great significance on the question of rural coöperative finance because it proves that coöperation and mutuality are congenial to the spirit of the American people and may be applied in their most complicated forms to the ordinary affairs of life.

But although well supplied with urban institutions for thrift and credit and with great numbers of rural associations of the kinds mentioned, the United States has nothing to compare with the rural coöperative credit systems which are being developed in Europe. There is very little mixing in Europe of urban and agricultural business. Each class of business has associations of its own. For agriculture these associations are parts of elaborately organized systems, created in either of two ways. Sometimes the farmers belong in the first instance to a large association for safeguarding and promoting their general interests, and as members of this large association form local associations for industrial, mercantile and credit purposes; this is called *syndicalism* and the system prevails in France, Belgium, Portugal, and to some extent, Holland. Sometimes, on the other hand, the farmers acting as independent individuals first form the local asso-

ciations, which in their turn form unions and regional associations out of which are formed national associations, corporations and federations; this process of building up from the ground is called decentralization, because it leaves to the associations in each union, region and constituent locality the control of their internal affairs. This is Germany's system, although the Raiffeisen associations which have declared for the principle have not yet completed their transformation.

But whatever the arrangement, these agricultural coöperative systems, whether aided by the state or depending upon self-help alone, have the credit societies for their basic units, except in Denmark and Ireland. In Denmark agriculture is highly organized cooperatively but mainly for the manufacture and marketing of milk products. The returns from these with middlemen eliminated are quick and profitable, creating a large volume of immediately available circulatory capital for the farmers. Whatever other funds they need may be acquired easily by loans for long or short time from the excellent Danish land mortgage associations and the savings and ordinary banks. Consequently, as there is no need for coöperative credit societies, none exists. In Ireland also the majority of the cooperative associations are dairies and creameries; they are fairly well served by the ordinary banks, and in the absence of a pressing necessity the Irish farmers are lax in their efforts to develop coöperative credit.

The main characteristic of this basic unit or local rural coöperative credit society is that the area from which members are recruited is so restricted that all members or at least the officers may know personally every person admitted to membership. Indeed, this is the first essential, for not otherwise can be obtained that full and regular attendance at meetings and that personal acquaintanceship making for friendly relations and mutual confidence which create and maintain the true spirit of coöperation. The number of members rarely exceeds 150, while frequently it is 50 or under. Often the members all belong to the

^{same} race, religion or political party, and thus there may be several societies operating within the same area. Indeed, it is ^{the} severest for the society to impose qualifications for membership, since the resulting homogeneity assures harmonious action. It matters not how exclusive the local societies or the unions which they form may be, because when they connect with the higher organizations which look after the general welfare of the farmers in the system they will reach a stage where there is complete identity of interests among all.

The rural credit society is not an aggregation of capital but an association of persons, admitted usually upon vote of the managers, which must be unanimous. In France, members, individual or associational, must be farmers or persons engaged in industries or vocations connected with agriculture. In Germany this requirement is not imposed, but in every country members must be residents of the area over which the society in which they apply for membership operates, and they forfeit membership upon moving out of that area or upon violating any of the conditions set forth in the by-laws. Generally a member must subscribe to at least one share, of a value of \$10 more or less, to be paid in at entrance or by instalments within one or two years. In the German Raiffeisen system the share is simply a nominal compliance with the law, since the original founder did not believe in share capital; but Raiffeisen's principles in this particular are now allowable by law and practised only by the rural societies in Italy and a few other countries. Multiple holdings and multiple voting up to a certain limit are permitted in some countries, but as a rule a member is entitled to only one vote, to be exercised in person and not by proxy, no matter how many shares he may hold. The most modern laws do not prescribe a limit for dividends. The shares in effect are simply certificates of long-term deposits which members may make and withdraw on a few weeks' notice, and the societies may distribute among them all the annual net profits after setting aside a specified portion for the reserves. It may be said that the

limitation of dividends to a certain annual rate exists only in state-aided societies or in those whose shares are of merely nominal value. Societies which have no shares of course pay no dividends.

The presence or absence of shares divides the rural credit societies into two classes. Societies with shares all are on the limited-liability plan; that is, in the event of their failure a member may lose only the amount paid in on his shares or is liable to pay only one or more times the full face value of his shares as specified in the by-laws. In societies without shares or in which the shares have only a nominal value, the liability is unlimited, that is, the members are jointly and severally liable for all obligations incurred by their societies, and this liability may be enforced by a society's creditor against any member whom he may choose to sue, or else it is enforceable in bankruptcy by assessments equal on all members continued until the close of the proceedings. Members of an unlimited-liability society who have been compelled to pay more of its debts than their just portions have a right of recovery for the excess against fellow members whose assessments have not been collected. There is another difference of vital importance: The unlimited-liability society having no shares naturally pays no dividends; all the profits belong to the society and not to the individual members and are placed in the reserve; hence the reserve rapidly increases in size in a successful society and serves not only as a guaranty fund but also as a working fund. In both classes of societies the reserve is indivisible; that is, in the event of dissolution it is not distributed among members but is used for forming a new credit society in the same locality or is devoted to some agricultural object of general benefit to the system.

The rural credit societies are financed by surpluses and reserves, by deposits received from members and outsiders, by money borrowed on the collective liability of members, by small admission fees (except in the German Raiffeisen societies), and by share capital in societies which issue shares. Its variability due to payments and withdrawal on shares

would make such a capital an unreliable fund for steady operations if it stood alone; consequently the societies are required to reinforce it by raising the reserves to a substantial figure. By the French law three-fourths of the net profits must be written each year to the reserve until it equals one-half of the capital; in Germany the by-laws of each society must prescribe the ratio at which the one fund must be maintained to the other. The societies do not enjoy many special privileges. The few which are accorded, however, are important, comprising tax exemptions for deposits and freedom from or reduction of stamp duties and fees, so that the bills of exchange and other negotiable instruments, usually for small sums, may be executed, accepted or discounted at less expense than is connected with such transactions by ordinary banks.

In all European countries there is a marked similarity in the administration of cooperative credit societies. The supreme authority within the society is lodged in the members regularly assembled. By a majority vote they may set aside any act of the officers and exercise directly all powers of the society, and by a larger vote, usually three-fourths, they may dismiss officers, amend the by-laws or dissolve the society. Officers usually are elected by members. As a rule the committee of management is composed of three members, one of whom is retired or reelected each year. One of the managers is designated as chairman or president. Separate and distinct from this body is a board of three supervisors elected in the same way. Their duties are to keep vigilant watch over the society's affairs and to oversee and inspect the work of the managers, they may veto the act of any officer or employee and even suspend him until the matter is brought before a meeting of the members. The compensation of the managers and supervisors is always small and in some cases they receive none, while they are excluded from the credit facilities of the society and from serving as sureties for other borrowers, except upon permission granted at a meeting of the members. The secretary-treasurer is not considered as an official; he is a paid

employee chosen by the managers and supervisors. Usually he must enroll himself as a member upon appointment.

Besides these officials and employees an auditor is appointed by the court or by the union or federation of the system to which the society belongs. If appointed by a union, he is invariably a trained and experienced expert, and in addition to his ordinary functions, he acts as adviser to protect the society from bad business practices and from deviating from strict cooperative principles. Each society is inspected by an auditor at least once every two years. Certified copies of the annual reports checked by the auditor must be filed in a special registry in the district court and published in the official newspaper. The articles of agreement must be filed and published in a like manner, and a list of members, showing the shares, if any, held by each, must be kept up to date in the registry. Every member must declare in writing his adherence to these articles in a declaration which is a separate paper from the subscription for shares. This outside audit and the official registration and publication enable all who deal with a society easily to obtain correct and exact information of its affairs. They have been the greatest factors in maintaining the solvency of the cooperative systems of Europe.

The best legislation does not comprise one law for credit societies and another for societies for other cooperative purposes, but consists of one omnibus act governing coöperative societies of all kinds. No matter whether the societies are mercantile, industrial or financial, or whether they are organized on a limited- or unlimited-liability basis with or without shares, the legal requirements relating to the administration and management are the same, and a farmer who joins any of them knows just how to act and what to expect. There is no need for the states of the United States to enact special legislation for credit societies. If each state had a single law on coöperation, embracing societies extending credit not based on real estate, the organization, administration, management and business methods of coöperative societies for all objects and of all

classes would become standardized in the state, and the farmers, saved from the necessity of studying complex laws, eventually would learn how to apply cooperation to all their activities in accordance with simple and well known statutory regulations. Cooperation cannot progress easily and rapidly unless these regulations are simplified and standardized. The farmers must be brought to understand that the transactions of a credit society are in fact less complicated than those of any other kind of cooperative society.

In all cooperative systems not aided by the state the first two functions of a credit society are the reception of deposits from members and outsiders and the according of credit to members on security not based on real estate. In Canada credit societies do not accept deposits from outsiders, but there is no good reason for this limitation since deposits from the outside, being in effect borrowed money subject to call at will or on short notice, constitute the greatest source of capital. In agricultural societies the stimulation of thrift is not to the same extent as in urban societies the purpose of attracting deposits. Indeed, this purpose is incidental, for the prime reason clearly is that deposits are the easiest way to raise funds for financing members in their various undertakings. The agricultural credit societies are far from being mere benevolent institutions for helping poor and feeble folk or from being training schools for persons not possessing industrious, economical and orderly habits. They are, it is true, about the only means through which such classes can be permanently benefited and improved; nevertheless the substantial farmers preponderate in the membership in the places where the societies are the most numerous and successful.

A great deal of misinformation on European coopération has crept into the United States. The societies, it has been asserted again and again, grant cheap and easy credit, at interest far below current rates, down to three and even two per cent, upon character alone. No statement could be farther from the truth. Only in Italy is character credit

ever accorded, and there, too, only now and then by Luzzatti's urban banks in the form of "honor loans" to indigent persons out of a small portion of their profits which they can afford to lose set aside each year as a pure act of charity. With this small exception there is no cooperative credit society in Europe which does not demand of borrowers as safe security as is exacted by an ordinary bank. Moreover, interest rates are never below those on sound and marketable securities except where the state has advanced public funds to be distributed in free or cheap loans. Again, there is a mistaken notion that a limit must be set to the rate of interest and also of dividends. The state of course designates the interest rate at which the moneys it advances shall be loaned and invariably stipulates that the societies it selects for the distribution shall not, if they have shares, pay more than a certain per cent in dividends. This is done to prevent the society from making profits at the expense of the state's intended beneficiaries. Occasionally also societies not aided by the state limit dividends, but never on account of any antipathy to money. When this is done it is for the purpose of shifting money obtainable from shares over to deposits and thereby establishing a fair balance between the shareholding and the borrowing members, particularly in societies where multiple voting is allowed. Ordinarily the societies may charge interest on loans as high as that allowed by the usury laws but in fact they never touch that limit.

The nearest the societies come to extending credit on character is when they permit a member to draw against an uncovered open account up to an agreed amount. Only those members who have unencumbered and readily attachable property, however, are allowed this privilege, while the agreed amount of the account is fixed at considerably less than the ascertained value of their property. Chattel mortgages and pledges of personal property are not uncommon, while the credit societies have been tempted even to assist members to acquire small holdings on real-estate mortgages and have invested their surpluses in such secur-

ities. Serious consequences have resulted from this practice. The entire rural cooperative system of the Grand Duchy of Hesse has been shaken to its foundation by thus tying up funds of the credit societies, but bitter experience is gradually teaching cooperatives to let real-estate mortgages alone. The preferred security is the indorsement of one or more responsible parties, and with the rare exceptions noted, the societies will not extend credit on anything less. The societies themselves are able to borrow upon no other security than the collective liability of their members, and this is what is meant in speaking of the character credit which is available for cooperatives.

The interest rate for loans, discounts and acceptances by European rural cooperative credit societies after they have been firmly established is never more than that charged merchants by the ordinary banks in their locality, while in the German Raiffeisen societies it may be less than the commercial rate, for a reason already explained. The American farmers should disabuse their minds of the stories recently told them of the fabulously cheap money in the European credit societies. There is enough good in coöperation to assure its spread, when once it becomes understood, throughout the United States without the invention of fictitious advantages. The granting of agricultural credit is expensive to the ordinary lender because of the costs of examining the securities offered and of making recoveries and is not profitable unless it yields an interest rate sufficiently high to cover all costs and risks. Furthermore, it is objectionable because of the slowness of repayment, and the farmer finds himself paying renewal fees, commissions and bonuses in addition to the written rate, to say nothing of his feeling more like a beggar for favors than a claimant of rights when the period of the loan expires. Consequently he avoids the money lenders and the banks as much as possible, and too often he buys his implements and supplies on time, without knowing what the merchant is charging him for deferred payment, and lets his account at the country store run indefinitely to be settled finally by turn-

ing over produce at the storekeeper's price. When the farmer cannot get along any longer in this fashion, he raises money for his debts by placing a three- or five-year mortgage on his homestead with little hope of paying it off within that time. If a crash comes he blames the monetary system and the capitalists.

All these bad practices and troubles would disappear if coöperation were introduced. There would be no more commissions and bonuses or difficulty in getting renewals or new loans, while the interest rate would drop eventually to a figure as low as that at which the most solvent man in the nearest city could obtain credit. The farmer should not expect the rate to fall below that figure because the money lent to him comes from the deposits and share payments of his neighbors or was borrowed on their collective liability as fellow members, all of which must be repaid and remunerated at reasonable interest rates. However, the rural coöperative credit society does not pay big salaries or dividends to outsiders, while it saves expenses by being situated in the locality in which it transacts business, so its outlays are small, and this inures to the benefit of its borrowers.

But borrowers are not the only persons in a coöperative credit society, nor are the reduction of interest and easy terms on loans the only advantages which it affords. The belief prevailing in the United States that a rural coöperative credit society is an association composed entirely of borrowers or of persons expecting to become borrowers is true only for the state-aided systems of France and Hungary, which small farmers join in order to obtain cheap loans from the free money supplied by the governments. The French or Hungarian farmer gives but slight attention to his society when once he has received his loan from the Government; he makes no deposits and buys no shares if he can escape doing so, and leaves the future to the next farmer who may want a lift from the Government. In Germany, however, where the systems were created and are maintained and managed by the farmers themselves

and where in consequence of that fact agricultural cooperation has been the most highly developed, the farmer when he joins a credit society joins to stay, becomes an active member, considers himself honored if elected one of its officers, uses it as a depository for all his savings and disposable cash, and resorts to it for facilitating his financial transactions of all kinds.

In Germany the rural coöperative credit society is far from being a mere thrift-stimulating and money-lending institution. It is not only unexcelled in these two capacities, but it also renders banking services of every description to its members. Small though it may be, it is one of many thousands of similar basic units which form or help to sustain a mighty system of local, regional and national cooperative banks, factories, supply stores, and selling and marketing agencies, all bound together and guided by unions, provincial federations and national federations organized for subserving, protecting and promoting the various interests of agriculture. Most of the money for carrying on the business of this system comes out of the local cooperative credit societies and into them again finally flow the profits distributed among the farmers. The transactions between individuals of the same neighborhood, between societies and the regional banks, between the regional banks and the central and national institutions, and between the latter and the outside world are represented by negotiable instruments and bankable paper which pass back and forth through these channels with the movement of trade, the purchase of supplies, the sale of produce and commodities, and all the exigencies calling for the transfer of money from one place to another. The advantages gained from this interrelation and united action among the farmers of Germany are so great that the local cooperative credit societies would continue to exist even if they did not have a borrowing member. Indeed, the richer the members become, and they have become richer, and the less need they have of credit except for the requirements of trade and commerce, the larger and more powerful the system itself becomes through

the increase in the number, membership and resources of these now indispensable financial and banking units in agricultural Germany.

The power, elasticity and solidity of the two German rural cooperative credit systems are a striking and complete proof of the wonderful value and effectiveness of co-operation for farmers. They have spread over the larger portion of the Empire without weakening their framework at any point. Although somewhat artificially and faultily built at the top and open to domination by ambitious leaders, they have recovered from financial depressions, faults of management and even the shock of war with a resilience possible only for the strongest institutions, and no doubt is now ever raised as to the integrity or ability of their components to perform any engagement they undertake. Yet these systems are based on small local credit societies, each apparently so insignificant that its only outward and visible sign is a desk and strongbox in a room in some farm home or country school. This unit owes no allegiance which it cannot disserve at will, and its own members also may retire and withdraw their deposits and shares or even dissolve the society practically at will, for it is merely a club of a few friendly neighbors associated under statutory formalities of rural simplicity.

Such an easily formed and easily dissolved little association as this may not appear fit to serve as the basic unit in a great financial, commercial and industrial system. Nevertheless, in Germany it attracts deposits as readily as a savings bank or a postal savings bank, remits what it does not need to other societies, draws against their surpluses to supply its own deficiencies, and borrows when necessary from outside banks or money lenders at the lowest current interest rates for making loans to members or advancing funds to other societies and higher organizations in the system. Thus its influence and relations may extend beyond its immediate neighborhood to the farthest parts of the Empire. As a rule the German rural cooperative credit societies have no trouble in finding all the money they need,

because the collective liability of their members, standing all for one and each for all, has been proved by the test of years to be a security equal to the best. Most of the money comes from members, however, and naturally so because most of the rural producers become members.

In countries where the farmers apply coöperation not only to credit and banking but also to industrial, mercantile, commercial and all other activities, the rural cooperative credit society has two general uses for its funds. The first is to extend credit to members, and the second, to finance undertakings for collective purchase, collective sales and the manufacture in common of marketable commodities out of farm produce. The credit accorded to members consists mainly of three-months loans renewable three or four times if necessary. If loans for over a year are granted they are repayable in instalments and recallable by the society on a few weeks' notice. The most usual method of financing the undertakings just referred to is by buying shares or bonds of other coöperative associations organized for such special purposes. Generally the rural cooperative credit society and its individual members acquire shares in these other local associations, then these associations and the rural coöperative credit society acquire shares in the regional banks and regional associations, and so on up to the top. Thus all are welded into a united system.

The profits realized in the system are distributed as dividends by the higher institutions to the local associations and finally reach the farmers through their local credit societies. If the local society has shares, it also distributes dividends; if it does not have shares, the gains which fall to it all go into the reserves, gradually giving it more funds of its own to lend to members. By being thus relieved more and more from the necessity of borrowing on its own part, the rural coöperative credit society is able as time progresses to charge lower interest rates or pay larger dividends to members. The savings resulting from the buying of supplies at wholesale prices, the marketing of produce and the manufacture and distribution of commodities without

the intervention of middlemen and outside merchants are advantages which the societies directly or indirectly afford and are indeed of greater value to members in general than cheap and easy credit. All the German Raiffeisen credit societies and many of the other rural credit societies, instead of forming other local associations to exist alongside of them, have trading and banking as their dual function, and make collective purchases for their members and sometimes collective sales. Locally this has proved to be the best arrangement, since it centers the various activities of the local group in one society under one set of officers and employees, thus saving expense and making an arrangement more convenient for members. The supplies bought by a member are either charged against his account or else are sold to him on time evidenced by a promissory note; there are book-keeping and papers for only one transaction instead of for two transactions as would have been the case if the business had been done by separate associations.

The European agricultural cooperative systems which embrace banking all have the same kind of structure and scheme of arrangement. First the farmers are organized locally by belonging to credit societies having the dual function of banking and trading, or else they belong to credit societies and also to other local associations connected with the credit societies. These groups of local societies and associations form regional banks and associations and all are bound together in what are called unions. The unions, known as *syndicats* in France and other Latin countries, are the second degree of organization in the system, and they are the most important factors in extending and preserving it.

In some instances the unions do collective purchasing, but the approved practice is to keep the union free of business affairs, so that it may be devoted to its chief and especial purposes of supervision, inspection, auditing, propagandism, the encouragement of the formation of new credit societies and associations for other cooperative purposes, and the defense and promotion of the general interests of the

organized farmers within its region. The societies and associations of the region create regional banks and associations with headquarters at the place where the union has its headquarters, which are often managed by officers of the union. The officers of the regional banks and associations and of the unions, elected by the adhering local societies and associations, are drawn from among the most substantial and prominent farmers of the region and from the priests, preachers, bankers, large landowners, and influential business men identified with agriculture who not infrequently are allowed to join the local cooperative credit societies to give them standing.

The third and final degree of organization in the system comprises the federations created for linking the unions together, for bringing about the formation of central associations and banks, and for directing and enlarging the system in its national scope. The two German agricultural cooperative systems are the only ones in Europe which are extensively developed in the third degree of organization, and these two systems are the results of many years of slow upward growth. Such an elaborate system cannot have a rapid growth if it is expected to be sound and enduring. It is doubtful whether outsiders, even with the aid of the state, could create one by beginning at the top and working down. If the farmers of the United States wish such a system, it is in their power to start it themselves at the grass roots by forming small local cooperative credit societies. If they are not hasty in action or over-ambitious, in due course of time by gradual steps they will become firmly organized in local groups, in regional groups or unions, and in federations with local, regional and central associations and institutions for finance and all their other needs and necessities.

A rural cooperative credit society is the easiest kind of an association to form and operate. As one illustration of many that might be used, let us assume that there are 50 farmers living along a five-mile stretch of road leading out

from a town in an agricultural region. They meet at the district school, church or some convenient farmhouse, and form, not a corporation, but rather a club, and elect from among themselves two men to act as managers and three as supervisors and another to serve as secretary-treasurer. The secretary-treasurer man lives at the end of the road farthest from town, and every Saturday morning he hitches his team to his wagon, stops at the gate of his first neighbor, takes his savings, gives a receipt, and jots down his order for what farm supplies he needs. Thus he goes down the road, stopping at every gate. When he gets to town he deposits the money collected in the name of the society in the best bank. Then he goes to some wholesale house, loads his wagon or wagons with enough supplies to fill the orders given to him, draws a bill on the bank in payment, drops the supplies ordered at each gate on his way back, and when he reaches home, credits the members with their cash and debits them with the wholesale price of the supplies received.

At the end of the month, in the school house or at the church an hour before service, the managers hold an open meeting attended by all members who desire to be present. An extra man perhaps is engaged to help in the collecting and hauling, the accounts of the secretary-treasurer are checked up, and a committee is appointed to recruit new members living along the lanes crossing the road and to induce persons not qualified for membership to become depositors. Since the members and depositors save more than they spend, the society's balance at the bank begins to grow and it is soon ready to grant a few loans. Some Saturday evening or Sunday morning the managers consider applications and approve that which appears most safe and urgent. If this is done at a called meeting, however, the members may overrule the act of the managers and take any other course they desire because the supreme power of the society is always lodged with them.

Now the applicant is not granted the loan at any lower interest rate than prevails in the locality, because the society

is not a benevolent institution in any respect. It is paying interest on deposits received, out of which the loan has been made, it has some small expenses to meet, as the salaries of the secretary-treasurer and employees, rent, etc., and above all it is trying to accumulate a reserve so as to protect members against losses. All this must come from the interest charges which, with the small profits of the trading business, are the chief sources of its income. Eventually, however, borrowers may be granted loans at a slightly reduced rate, when the increasing reserve strengthens the standing of the society and enables it to attract cheaper deposits and rely more largely on its own unborrowed funds for making loans. But a borrower is never charged commissions or costs for examining the loan, because the managers are neighbors and are supposed to have knowledge of his solvency and the value of the security offered, while he may obtain longer periods and easier terms for renewal, since these neighbors understand agricultural conditions better and will be more considerate with him in hard times than would the ordinary banker. Moreover, there are no heavy legal expenses in the event of default because a borrower would not dare to try to beat his neighbors out of their just dues if he expected to live in peace in the neighborhood.

These benefits alone would make the society preferred to the ordinary banks or private individuals as a lender, and it would gradually increase its membership and absorb all the business along that five-mile stretch of road. Then perhaps it would need to borrow in order to take care of the business, and this it could do without difficulty because there would not be a banker in the town who would not be willing to lend on the collective liability of the members all the money the society might require. Some of the members might die, get sick, lose their farms, or move away, but according to the law of averages by which the risks in all business are determined, enough would remain to meet every engagement of the society. Now these risks would be practically non-existent either to members or to the lender,

because, assuming that proper legislation existed, the maximum of liabilities which the society might incur, either for deposits, borrowed money or any other kind of obligation, would be fixed by the articles of agreement and known to all. Long before that maximum was reached the members when they saw that a bad loan might eat up the reserve, might settle the loss by a small *pro rata* contribution and change the management or dissolve the society at once and begin all over again. This is why there never has been a failure in a Raiffeisen credit society causing loss to a depositor or a creditor; nor has there ever been any burdensome or unequal assessments on members, because constant vigilance prevents many bad loans, and the little losses which have occurred have been met by raising the interest rates of the borrowers or the wholesale prices of supplies sold to members.

Hence the Raiffeisen form seems to be the safest for a rural credit society. There need be no shares, for why should members wish to make dividends out of themselves? The shares in a true cooperative society have no voting power; that belongs to the membership certificate. The share capital is simply time deposits serving incidentally and only in part as a guaranty fund. In a Raiffeisen credit society the transactions are guaranteed by a portion of the reserves, while the deposits are savings and current accounts as in an ordinary bank; the Raiffeisen society therefore has one fund less to handle and consequently is less complicated than an association with shares. Its members, if they have idle cash, place it on deposit and draw interest at as high a rate as that of any possible dividends on shares. Shares and dividends create a distinction between investing members and borrowing members which interferes with the harmony which ought to reign in an association of neighbors and leads to corporation practices with profit as the main object. Corporations or associations with shares exist in agricultural cooperative systems and are practically indispensable for the higher institutions which center around the unions and federations, but there is not a system which would not be better if its basic units were all little neigh-

borhood clubs, like the Raiffeisen credit societies, without shares or dividends. A Raiffeisen credit society does not strive to make profits out of the necessities of one class of members to be distributed among another class. Its objects are to reduce interest rates to fair figures, to make collective purchases at wholesale prices, sometimes to make collective sales, and to gather up the money made by the farmers and their friends within a small defined area for re-use within that area, so that the farmers may employ the wealth which they create first for financing their own undertakings and then for helping farmers in other localities.

Now after the supposed credit society on that five-mile stretch of road has been operating for a year, the farmers on the next road, seeing how successful, safe and convenient it is, would form a credit society, and so on with the farmers on other roads. When credit societies had been formed on all roads converging in the town, the managers would get together and form a union to look after their general interests. The first thing done by the union would be to form a regional bank on the share plan, selling the shares to the local credit societies and, if they are unable to supply all the needed capital, to individual farmers and even outsiders. With the establishment of the regional bank, the local credit societies would all be interlocked and their resources would flow from one to the other, the regional bank serving as the means of communication among them and with the outside world. After this financial network had been spread the union would organize corporations or rather associations with shares for coöperative buying, selling and manufacturing, etc., and thus all the farmers in that region would become organized cooperatively, just as it has been done in Germany. When this region has been organized, other regions would organize in the same way. The unions, with officers consisting of experienced and capable farmers and other persons identified with agriculture, would see to the supervision, inspection and auditing of their local credit societies and regional banks and associations, which would finally be linked together through the

unions by state and national federations with central institutions. There is every prospect for enduring success for such a system provided the component parts would avoid real-estate credit and land transactions and keep their assets in circulatory form, habitually extending only short-term credit on easily negotiable securities, or bankable paper.

There are no federal or state laws in the United States under which the farmers might organize themselves into systems with credit societies as the basic units. The laws of Massachusetts on credit unions of 1909, of Texas on rural credit unions of 1913, of Wisconsin on cooperative credit associations of 1913, and of New York on credit unions as finally enacted in 1914, provide for the organization of associations intended for thrift and small credit for feeble folk. Texas limits the loans to \$200 at not over six per cent for productive purposes, thus absolutely preventing large undertakings, while the restrictive measures of all four laws render them useless for rural banking and credit systems. All require the members to be natural persons; none allows associational members. This alone would prevent credit societies from being the basic units of a system. All forbid the acceptance of deposits from outsiders, thus closing the greatest source of funds for operations. All require share capital and prohibit the societies from doing any other business and from using their funds for any other purpose than that of making loans. This rejection of Raiffeisen principles is the most serious and regrettable defect in the laws. The farmers of the United States are capable and independent men and they should have the right under the laws to organize themselves as best suits their own ideas or circumstances, whether it be in associations with shares or without shares or with collective liability limited or unlimited. Moreover, they should be able to decide for themselves whether they will have syndicated local associations or just one Raiffeisen credit society for each neighborhood. They have no choice under any of these laws, and thus the play of private initiative and freedom of action is blocked.

The use of the word "union" is wrong. The misuse of this word evidently is due to an erroneous translation of the French word *syndicat* in the Quebec law which the drafters of the Massachusetts law used as their model. Unless this word is changed, another word will have to be employed to designate the second degree of organization in an agricultural cooperative system. If this were done it would precipitate in confusion the statutes and literature on the subject in European minds. It is safe to predict that except in scattered instances there will be no rural cooperative credit societies formed under the Massachusetts, Texas, Wisconsin and New York laws if they are not materially amended.

The first step to be taken in order to extend coöperation and to introduce coöperative credit among farmers is of course the enactment of proper legislation. Already there are good laws on cooperative associations in many states. These ought to be codified in every state and the bad laws repealed. Wherever it could be done without interfering with present development and existing conditions, the laws on cooperation in each state should be reduced to one statutory act. There does not have to be one law for credit societies and separate laws for associations for other coöperative purposes. One law could be made to fit them all, and this would be the best plan because then the regulations would become standardized as regards organization, administration and management. The farmers of the United States do not need any special privileges or state aid. If methods were simplified and technicalities eliminated, cooperation, or organized individualism based on private initiative and mutual self-help, would eventually be applied to all their activities. They would accomplish this most quickly and successfully by starting with the credit society as the local unit formed and operated on the principles of Raiffeisen. This unit should not be conducted merely as a savings and loan association. Its chief object should be to accumulate funds for the use of members collectively as well as individually for their common good.

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